

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended March 31, 1997
Commission File No. 0-13292

McGRATH RENTCORP

(Exact name of registrant as specified in its Charter)

California 94-2579843

(State or other jurisdiction (I.R.S. Employer
of incorporation or organization) Identification No.)

2500 Grant Avenue
San Lorenzo, California 94580

(Address of principal executive offices)

Registrant's telephone number: (510) 276-2626

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
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At May 1, 1997, 15,008,518 shares of Registrant's Common Stock were outstanding.

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF INCOME
 (Unaudited)

	Three months ended March 31,	
	1997	1996
REVENUES:		
Rental operations-		
Rental	\$14,327,001	\$11,557,798
Rental related services	2,913,012	1,658,386
	-----	-----
Sales and related services	17,240,013	13,216,184
	9,601,497	4,489,167
	-----	-----
Total revenues	26,841,510	17,705,351
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COSTS & EXPENSES:		
Direct costs of rental operations-		
Depreciation	3,423,441	3,005,653
Rental related services	2,037,493	1,026,590
Equipment supplies, repair, direct labor and other	2,528,406	1,961,356
	-----	-----
Cost of sales and related services	7,989,340	5,993,599
	6,261,196	3,100,825
	-----	-----
Gross margin	14,250,536	9,094,424
	-----	-----
Income from operations	12,590,974	8,610,927
	-----	-----
Selling and administrative expenses	3,543,144	2,877,247
	-----	-----
Income from operations	9,047,830	5,733,680
	-----	-----
Interest expense	872,885	635,274
	-----	-----
Income before provision for income taxes	8,174,945	5,098,406
Provision for income taxes	3,255,457	2,024,829
	-----	-----
Net income	\$4,919,488	\$3,073,577
	-----	-----
Net income per share	\$ 0.33	\$ 0.20
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The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEETS
 (Unaudited)

	March 31, 1997	December 31, 1996
	-----	-----
ASSETS		
Cash	\$ 1,376,797	\$ 686,333
Accounts receivable, less allowance for doubtful accounts of \$611,000 in 1997 and \$605,000 in 1996	17,695,950	19,919,954
Rental equipment, at cost:		
Relocatable modular offices	163,130,441	158,376,950
Electronic test instruments	45,039,756	43,335,413
	-----	-----
	208,170,197	201,712,363
Less - Accumulated depreciation	(66,349,206)	(64,419,888)
	-----	-----
	141,820,991	137,292,475
Land, at cost	20,167,647	20,167,647
Land improvements, furniture and equipment, at cost, less accumulated depreciation of \$3,540,708 in 1997 and \$2,824,369 in 1996	21,120,233	19,572,015
Prepaid expenses and other assets	4,039,235	2,396,935
	-----	-----
	\$206,220,853	\$200,035,359
	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Notes payable	\$ 52,000,000	\$ 53,850,000
Accounts payable and accrued liabilities	16,807,950	15,280,543
Deferred income	5,013,473	5,226,803
Deferred income taxes	39,394,287	36,869,734
	-----	-----
Total liabilities	113,215,710	111,227,080
	-----	-----
Shareholders' equity:		
Common stock, no par value -		
Authorized - 40,000,000 shares		
Outstanding - 14,976,518 shares in 1997 and 15,386,630 in 1996	7,639,225	7,161,168
Retained earnings	85,365,918	81,647,111
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Total shareholders' equity	93,005,143	88,808,279
	-----	-----
	\$206,220,853	\$200,035,359
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The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
 Increase (decrease) in cash
 (Unaudited)

	Three months ended March 31,	
	1997	1996
Cash flows from operating activities:		
Net income	\$ 4,919,488	\$ 3,073,577
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,657,614	3,178,949
Gain on sale of rental equipment	(1,513,842)	(1,115,396)
Change in:		
Accounts receivable	2,224,004	1,087,360
Prepays and other assets	(1,642,300)	142,136
Accounts payable and accrued liabilities	1,364,540	875,338
Deferred income	(213,330)	(1,212,778)
Deferred income taxes	2,524,553	1,814,025
Net cash provided by operating activities	11,320,727	7,843,211
Cash flows from investing activities:		
Purchase of rental equipment	(9,980,850)	(5,501,792)
Purchase of land improvements, furniture and equipment	(1,782,391)	(1,374,781)
Proceeds from sale of rental equipment	3,542,735	3,005,926
Net cash used in investing activities	(8,220,506)	(3,870,647)
Cash flows from financing activities:		
Net borrowings (payments) under line of credit	(1,850,000)	(1,225,000)
Proceeds from the exercise of stock options	478,057	252,125
Repurchase of common stock	---	(2,215,127)
Payment of dividends	(1,037,814)	(935,353)
Net cash used in financing activities	(2,409,757)	(4,123,355)
Net increase (decrease) in cash	690,464	(150,791)
Cash balance, beginning of period	686,333	221,075
Cash balance, end of period	\$ 1,376,797	\$ 70,284
Interest paid during period	\$ 892,867	\$ 641,163
Income taxes paid during period	\$ 731,200	\$ 210,804
Dividends declared but not yet paid	\$ 1,200,681	\$ 1,069,567

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1997

1. The consolidated financial information for the three months ended March 31, 1997 has not been audited, but in the opinion of management, all adjustments (consisting of only normal recurring accruals, consolidation and eliminating entries) necessary for the fair presentation of the consolidated results of operations, financial position, and cash flows of McGrath RentCorp (the "Company") have been made. The consolidated results of the three months ended March 31, 1997 should not be considered as necessarily indicative of the consolidated results for the entire year. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's latest Form 10-K.

2. On March 27, 1997, the Company's Board of Directors declared a 2-for-1 stock split to be effective April 15, 1997. All share and per share calculations retroactively reflect the stock split. The number of outstanding shares and equivalent shares used in the earnings per common share calculations were as follows:

Quarter ended March 31, -----	Primary -----	Fully Diluted -----
1997	15,123,004	15,143,156
1996	15,756,370	15,762,590

3. The Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share", which modifies the way in which earnings per share (EPS) is calculated and disclosed effective for periods ending after December 15, 1997. Primary EPS will be replaced by basic EPS which is computed by dividing reported net income by the weighted average number of shares of common stock outstanding during the period. Fully diluted EPS will be replaced with diluted EPS which is computed by dividing reported net income by the weighted average number of shares of common stock and dilutive common equivalent shares outstanding during the period. Common stock equivalents result from dilutive stock options computed using the treasury stock method with the average share price for the reported period. When implemented, the effect of this accounting change on previously reported EPS data is not significant.

ITEM 2. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Three Months Ended March 31, 1997 and 1996

McGrath RentCorp (the "Company") is engaged in the business of renting and selling relocatable modular offices and classrooms under its trade name "Mobile Modular," and electronic test and measurement instruments under the names "McGrath RentCorp" and "Rentelco". Although the Company's primary emphasis is on rentals, both modulares and electronics are sold to direct-use customers. The Company also manufactures portable classrooms through its majority owned (73.2%) subsidiary, Enviroplex, Inc., for direct sale to school districts.

Rental revenues for the first quarter of 1997 increased \$2,769,203 (24%) over 1996 with modulares contributing \$2,128,809 of the increase and electronics contributing \$640,394. Average utilization during the first quarter increased for modulares from 70.0% to 79.3% and declined for electronics from 56.7% to 53.9%, as compared to the same period in 1996. The increase in utilization for modulares resulted from the large volume of shipments to school districts during the last half of 1996 and first quarter 1997 due to the implementation of class size reduction in California. Class size reduction has significantly contributed to the increase in rental revenues.

Rental related services revenues for the first quarter of 1997 increased \$1,254,626 (76%) over the same period in 1996. Most of the increase resulted from one commercial project with significant site work requirements performed at a lower gross margin. Gross margins declined between comparative quarters, from 38% in 1996 to 30% in 1997, as a result of this commercial project compounded with the earning of less incentive fees during the quarter for equipment management.

Sales and related services revenues for the three months ended March 31, 1997 increased \$5,112,330, a 114% increase, compared to the same period in 1996. Of the increase in sales and related services revenues, \$2,225,968 relates to modulares, \$2,621,819 relates to Enviroplex and \$264,543 relates to electronics. Again in 1997, the significant increase in sales for modulares and Enviroplex is directly related to the higher demand by school districts because of the class size reduction program in California. Of the consolidated total sales and related services revenues for the Company, 61% were related to school districts. Gross margin on sales and related services improved during first quarter 1997 to 35% from 31% for the comparative period in 1996. Sales and related services have fluctuated from quarter to quarter and year to year depending on customer requirements.

Depreciation on rental equipment for the three months ended March 31, 1997 increased \$417,788 (14%) as a result of additions to the rental equipment for both modulares and electronics. Equipment supplies, repair, direct labor and other increased \$567,050 (29%) over first quarter 1996 due to material, repair and labor costs directly related to the modular equipment movement in the first quarter 1997.

Selling and administrative expenses increased \$665,897 (23%) for the three months ended March 31, 1997 compared to the same period in 1996 due to increased staffing levels and personnel costs necessitated by the increasing levels of business. Additionally, expense increases of Enviroplex contributed to the overall increase.

Income before provision for taxes increased \$3,076,539 (60%) for the three months ended March 31, 1997 from the same period in 1996 with after tax income increasing \$1,845,911 (60%). Earnings per share for the quarter increased from \$0.20 per share to \$0.33 per share, a 65% increase, as a result of higher net income and fewer outstanding shares.

Liquidity and Capital Resources.

The debt (notes payable) to equity ratio was 0.61 to 1 at March 31, 1997 compared to 0.56 to 1 at December 31, 1996. The debt (total liabilities) to equity ratio at the end of the current period was 1.25 to 1 compared to 1.22 to 1 as of December 31, 1995.

The Company has made purchases of shares of its common stock from time to time in the over-the-counter market (NASDAQ) and/or through privately negotiated, large block transactions under an authorization of the Board of Directors. The Board of Directors believes that the repurchase of its shares continues to be a good investment for the Company. Shares repurchased by the Company will be cancelled and returned to the status of authorized but unissued stock. The Company has not repurchased any of its common stock during 1997 and currently has 1,000,000 shares authorized for repurchase.

The Company's primary use of funds is to purchase rental equipment, and funds will continue to be used for this purpose in the future. Additionally, the Company plans to make further improvements to the land at their inventory facility located in Northern California. The Company also pays quarterly dividends, which will constitute an additional use of cash in 1997.

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

On March 27, 1997 the Company declared a quarterly dividend on its Common Stock; the dividend was \$0.08 per share. Subject to its continued profitability and favorable cash flow, the Company intends to continue the payment of quarterly dividends. The Company's loan agreement with its banks prohibits payment of dividends in excess of 50% of net income in any one year without the banks' consent.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS. No exhibits included.

(b) REPORTS ON FORM 8-K. No reports on form 8-K have been filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 1, 1997

McGRATH RENTCORP

By: /s/ Delight Saxton

Delight Saxton
Vice-President of Administration,
Chief Financial Officer and
Secretary

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MCGRATH RENTCORP'S QUARTERLY REPORT (10Q) FOR QUARTER ENDING MARCH 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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	3-MOS	DEC-31-1997	JAN-01-1997	MAR-31-1997
				1,377
				0
		18,306		
		(611)		
		0		
		0		
			252,999	
		(69,890)		
		206,221		
		0		0
		0		
			0	
			7,639	
			85,366	
206,221				
			26,842	
	26,842			
			14,251	
		14,251		
		3,543		
		0		
		873		
		8,175		
		3,255		
		0		
		0		
		0		
			0	
		4,919		
		.33		
		0		

INCLUDES RENTAL EQUIPMENT, LAND, LAND IMPROVEMENTS, FURNITURE AND EQUIPMENT ACCUMULATED DEPRECIATION RELATED TO FOOTNOTE 16 ABOVE