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 September 30, 1996
Commission File No. 0-13292

McGRATH RENTCORP

(Exact name of registrant as specified in its Charter)

California	94-2579843
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer 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

At November 7, 1996, 7,398,959 shares of Registrant's Common Stock were outstanding.

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three months ended September 30, 1996	Three months ended September 30, 1995	Nine months ended September 30, 1996	Nine months ended September 30, 1995
REVENUES:				
Rental operations-				
Rental	$12,321,796	$11,928,853	$35,573,650	$34,524,914
Rental related services	3,920,071	3,032,306	7,672,245	6,832,034
	16,241,867	14,961,159	43,245,895	41,356,948
Sales and related services	9,255,338	4,106,228	19,598,040	11,480,755
Total revenues	25,497,205	19,067,387	62,843,935	52,837,703
COSTS & EXPENSES:				
Direct costs of rental operations-				
Depreciation	3,108,151	2,930,235	9,188,972	8,532,567
Rental related services	2,048,185	1,925,257	4,227,682	4,325,845
Other	1,752,510	1,256,333	3,855,515	3,593,837
	6,908,846	6,111,825	17,272,169	16,452,249
Cost of sales and related services	6,064,184	2,793,706	13,257,615	7,698,983
	12,973,030	8,905,531	30,529,784	24,151,232
Gross margin	12,524,175	10,161,856	32,314,151	28,686,471
Selling and administrative expenses	4,648,965	3,534,800	11,952,094	9,967,180
Income from operations	7,875,210	6,627,056	20,362,057	18,719,291
Interest expense	744,275	759,920	2,061,701	2,122,581
Income before provision for income taxes	7,130,935	5,867,136	18,300,356	16,596,710
Provision for income taxes	2,667,070	2,361,414	7,110,824	6,649,630
Net income	$ 4,463,865	$ 3,505,722	$11,189,532	$ 9,947,080
Net income per share	$ 0.59	$ 0.44	$ 1.45	$ 1.22

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

CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 1996	December 31, 1995
ASSETS		
Cash	$ 1,067,236	$ 221,075
Accounts receivable, less allowance for doubtful accounts of $605,000 in 1996 and 1995	18,581,472	13,201,196
Rental equipment, at cost:		
Relocatable modular offices	148,253,732	146,867,850
Electronic test instruments	40,458,394	34,932,807
Accessory equipment	3,931,249	3,755,754
	192,643,375	185,556,411
Less - Accumulated depreciation	(62,531,036)	(57,948,456)
	130,112,339	127,607,955
Land	20,167,647	19,489,300
Land improvements, furniture and equipment, at cost, less accumulated depreciation of $3,160,174 in 1996 and $2,708,404 in 1995	16,391,873	12,713,095
Prepaid expenses and other assets	2,326,195	1,897,700
	$188,646,762	$ 175,130,321
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Notes payable	$ 45,725,000	$ 37,080,000
Accounts payable and accrued liabilities	15,733,551	11,701,417
Deferred income	5,625,178	5,967,063
Deferred income taxes	36,315,667	34,488,695
Total liabilities	103,399,396	89,237,175
Shareholders' equity:		
Common stock, no par value - Authorized - 20,000,000 shares Outstanding - 7,398,959 shares in 1996 and 7,760,247 in 1995	5,585,817	8,913,311
Retained earnings	79,661,549	76,979,835
Total shareholders' equity	85,247,366	85,893,146
	$188,646,762	$ 175,130,321

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

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

	Nine months ended September 30, 1996	Nine months ended September 30, 1995
Cash flows from operating activities:		
Net income	$ 11,189,532	$ 9,947,080
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,787,419	9,274,334
Gain on sale of rental equipment	(3,606,691)	(2,325,868)
Change in:		
Accounts receivable	(5,380,276)	(2,507,781)
Prepaids and other assets	(428,495)	(429,354)
Accounts payable and accrued liabilities	3,931,629	2,113,140
Deferred income	(341,885)	(139,452)
Deferred income taxes	1,826,972	1,415,789
Net cash provided by operating activities	16,978,205	17,347,888
Cash flows from investing activities:		
Purchase of rental equipment	(17,598,298)	(13,587,246)
Purchase of land	(678,347)	(4,750)
Purchase of land improvements, furniture and equipment	(4,277,225)	(4,761,776)
Proceeds from sale of rental equipment	9,511,633	6,316,019
Net cash used in investing activities	(13,042,237)	(12,037,753)
Cash flows from financing activities:		
Net borrowings	8,645,000	3,975,000
Payment of dividends	(3,048,133)	(2,836,584)
Repurchase of common stock	(8,778,775)	(7,374,279)
Net proceeds from the exercise of stock options	92,101	41,416
Net cash provided (used) by financing activities	(3,089,807)	(6,194,447)
Net increase (decrease) in cash	846,161	(884,312)
Cash balance, beginning of period	221,075	1,151,648
Cash balance, end of period	$ 1,067,236	$ 267,336
Interest paid during period	$ 2,028,226	$ 2,110,541
Income taxes paid during period	$ 5,256,506	$ 4,750,000
Dividends declared but not yet paid	$ 1,035,854	$ 931,230

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 1996

1. The consolidated financial information for the nine months ended September 30, 1996 has not been audited, but in the opinion of management, all adjustments (consisting only of 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 nine months ended September 30, 1996 should not be considered as necessarily indicative of the 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. The number of outstanding shares and equivalent shares used in the earnings per common share calculations were as follows:

		Primary	Fully Diluted
Three months ended:	September 30, 1996	7,586,204	7,597,150
	September 30, 1995	7,958,848	7,960,787
Nine months ended:	September 30, 1996	7,701,993	7,734,126
	September 30, 1995	8,158,890	8,166,221

3. In May 1996, the Company's unsecured line of credit agreement (the "Agreement") with its banks was amended to extend the expiration date of the Agreement to June 30, 1997. In addition to extending the expiration date, the amendment requires the Company to maintain shareholders' equity of not less than $70,000,000 plus 50% of all net income generated subsequent to December 31, 1995 plus 90% of any new stock issuance proceeds (restricted equity as of September 30, 1996 is $75,595,000).

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

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 1996 AND 1995

The Company has experienced a significant increase in orders during the three months ended September 30, 1996 primarily related to a law enacted on July 15, 1996 in California which provided operational funding for a reduction of classroom size for kindergarten through third grade to 20 pupils and additional legislation which made available $200 million of state funds for facilities to accomplish that goal. The law requires that the new classrooms be in place by February 1997 to be eligible for the state funding.

Rental revenues for the three and nine months ended September 30, 1996 increased slightly over the same periods in 1995. For the nine month period, the $1,794,715 increase in rental revenues from electronics was offset by a $745,979 decline in rental revenues from relocatable modular offices. The rental revenue decline for modulars is primarily due to an increase in rental customers electing to purchase modulars they had on rent and to the return of modular equipment related to several large expired leases during the first part of 1996. Average utilization for the first nine months declined for modular equipment, from 74.6% to 70.5%, and remained the same for electronic equipment (55.2%), as compared to the same period in 1995. However, as a result of the significant volume of shipments to school districts during August and September 1996, modular utilization has increased to 74.9% as of September 30, 1996 from 71.0% as of December 31, 1995. Rental revenues for the three months ended September 30, 1996 reflect only a partial quarter of rental revenues associated with the modular equipment shipped in August and September 1996.

Rental related services for the three and nine months ended September 30, 1996 increased $887,765 (29%) and $840,211 (12%), respectively, over the same periods in 1995. The nine month increase was primarily due to additional site requirements and the significant increase in the movement of modular equipment to school districts.

Sales and related services for the three and nine months ended September 30, 1996 increased $5,149,110 (125%) and $8,117,285 (71%), respectively, over the same periods in 1995. Of the nine month increase in sales and related services, $4,964,022 relates to the Company's modular equipment, $2,164,259 relates to the Company's majority owned subsidiary, Enviroplex, Inc., which manufactures and sells portable classrooms directly to school districts and $989,004 relates to electronic test and measurement equipment. The significant increase in modular equipment sales and related services is due to a high number (17) of large sales in 1996 of both new and used relocatable modular equipment amounting to $4,050,881. Of the sales of modular equipment through September 30, 1996, 33% are new and 67% are used. As of September 30, 1996, the largest single sale was for $1,517,337 by Enviroplex, Inc. to a school district consisting of manufactured portable classrooms of various sizes. Sales and related services from quarter to quarter have fluctuated depending on customer requirements. Gross margin on sales and related services for the nine month period was 32% in 1996 compared with 33.0% in 1995.

Depreciation on rental equipment for the three and nine months ended September 30, 1996 increased $177,916 (6%) and $656,405 (8%), respectively, over the same periods in 1995 due to the increases in electronics rental equipment. Other direct costs for the three and nine months ended September 30, 1996 have increased $496,177 (39%) and $261,678 (7%) respectively, compared to the same periods in 1995 due to material and repair costs directly related to the modular equipment movement during the third quarter of 1996.

Selling and administrative expenses for the three and nine months ended September 30, 1996 increased $1,114,165 (32%) and $1,984,914 (20%), respectively, over the same periods in 1995. However, during the first quarter of 1995, the Company recognized an acceleration of $330,000 in additional leasehold improvement expense related to a rented facility in Southern California in which the lease was terminated. Excluding this 1995 nonrecurring expense, selling and administrative expenses increased $2,314,914 (23%) for the nine months ended September 30, 1996 compared to the same period in 1995. The nine month increase is primarily due to increases in staffing levels for sales and support, personnel costs, temporary contract labor to assist in the preparation of modular offices for potential lease and sale opportunities, and increases in the expenses of the Company's majority owned subsidiary, Enviroplex, Inc. The increase in expenses are net of the reduction in facilities rental expense due to the relocation of modular office operations in Southern California and Texas to owned facilities.

Net income for the three and nine months ended September 30, 1996 increased $958,143 (27%) and $1,242,452 (12%), respectively, over the same periods in 1995. Earnings per share for the three and nine months ended September 30, 1996 increased 34%, from $0.44 to $0.59, and 19%, from $1.22 to $1.45, over the comparative 1995 period as a result of higher earnings and fewer outstanding shares.

LIQUIDITY AND CAPITAL RESOURCES.

The debt (notes payable) to equity ratio was 0.54 to 1 at September 30, 1996 compared to 0.43 to 1 at December 31, 1995. The debt (total liabilities) to equity ratio at the end of the current period was 1.21 to 1 as compared to 1.04 to 1 as of December 31, 1995.

The Company continues to make 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. From January 1, 1996 thru November 7, 1996, the Company repurchased a total of 420,550 shares of its common stock at an aggregate cost of $8,778,775 or an average price of $20.87 per share. As of November 7, 1996, 387,200 shares remain 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 1996.

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

On August 30, 1996 the Company declared a quarterly dividend on its Common Stock; the dividend was $0.14 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 the Bank prohibits payment of dividends in excess of 50% of net income in any one year without the bank's 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: November 7, 1996

McGRATH RENTCORP

By:/s/ Delight Saxton

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Delight Saxton, Chief Financial Officer and Vice President of Administration

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MCGRATH RENTCORP'S QUARTERLY REPORT (10Q) FOR QUARTER ENDING SEPTEMBER 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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DEC-31-1996
JAN-01-1996
SEP-30-1996
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11,190
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16) Includes Rental Equipment, Land, Land Improvements, Furniture and Equipment
17) Accumulated Depreciation related to 16 above