



Edgar Filing: MCGRATH RENTCORP - Form 10-Q

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one).

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of July 29, 2015, 25,814,394 shares of Registrant's Common Stock were outstanding.

---

## FORWARD LOOKING STATEMENTS

Statements contained in this Quarterly Report on Form 10-Q (this “Form 10-Q”) which are not historical facts are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, regarding McGrath RentCorp’s (the “Company’s”) business strategy, future operations, financial position, estimated revenues or losses, projected costs, prospects, plans and objectives are forward-looking statements. These forward-looking statements appear in a number of places and can be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “future,” “intend,” “hopes” or “certain” or the negative of these terms or other variations or comparable terminology.

Management cautions that forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties that could cause our actual results to differ materially from those projected in such forward-looking statements. Further, our future business, financial condition and results of operations could differ materially from those anticipated by such forward-looking statements and are subject to risks and uncertainties as set forth under “Risk Factors” in this form 10-Q.

Forward-looking statements are made only as of the date of this Form 10-Q and are based on management’s reasonable assumptions, however these assumptions can be wrong or affected by known or unknown risks and uncertainties. No forward-looking statement can be guaranteed and subsequent facts or circumstances may contradict, obviate, undermine or otherwise fail to support or substantiate such statements. Readers should not place undue reliance on these forward-looking statements and are cautioned that any such forward-looking statements are not guarantees of future performance. Except as otherwise required by law, we are under no duty to update any of the forward-looking statements after the date of this Form 10-Q to conform such statements to actual results or to changes in our expectations.

Part I - Financial Information

Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

McGrath RentCorp

We have reviewed the accompanying condensed consolidated balance sheet of McGrath RentCorp and subsidiaries (the "Company") as of June 30, 2015, and the related condensed consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2015 and 2014, and cash flows for the six-month periods ended June 30, 2015 and 2014. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated interim financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2014, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the year then ended (not presented herein); and we expressed an unqualified opinion on those consolidated financial statements in our report dated February 26, 2015. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2014, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Grant Thornton LLP

San Jose, California

July 30, 2015

## McGRATH RENTCORP

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(in thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
<b>Revenues</b>				
Rental	\$67,305	\$65,809	\$132,807	\$128,239
Rental related services	17,227	15,146	32,594	28,658
Rental operations	84,532	80,955	165,401	156,897
Sales	10,968	14,170	19,755	25,208
Other	526	620	1,058	1,200
Total revenues	96,026	95,745	186,214	183,305
<b>Costs and Expenses</b>				
Direct costs of rental operations:				
Depreciation of rental equipment	19,016	17,924	37,698	35,821
Rental related services	12,901	11,366	24,800	21,673
Other	16,226	15,188	31,437	28,738
Total direct costs of rental operations	48,143	44,478	93,935	86,232
Costs of sales	6,965	9,188	12,274	16,356
Total costs of revenues	55,108	53,666	106,209	102,588
Gross profit	40,918	42,079	80,005	80,717
Selling and administrative expenses	24,453	23,840	49,665	47,251
Income from operations	16,465	18,239	30,340	33,466
Other income (expense):				
Interest expense	(2,347 )	(2,335 )	(4,738 )	(4,538 )
Gain on sale of property, plant and equipment	—	812	—	812
Foreign currency exchange gain (loss)	(85 )	78	(253 )	(10 )
Income before provision for income taxes	14,033	16,794	25,349	29,730
Provision for income taxes	5,543	6,589	10,013	11,654
Net income	\$8,490	\$10,205	\$15,336	\$18,076
<b>Earnings per share:</b>				
Basic	\$0.33	\$0.39	\$0.59	\$0.70
Diluted	\$0.32	\$0.39	\$0.58	\$0.69
<b>Shares used in per share calculation:</b>				
Basic	26,142	25,912	26,117	25,851
Diluted	26,273	26,220	26,272	26,223
Cash dividends declared per share	\$0.250	\$0.245	\$0.500	\$0.490

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



## McGRATH RENTCORP

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Net income	\$8,490	\$10,205	\$15,336	\$18,076
Other comprehensive income (loss):				
Foreign currency translation adjustment	6	(11 )	89	23
Tax benefit (provision)	—	2	(16 )	(4 )
Comprehensive income	\$8,496	\$10,196	\$15,409	\$18,095

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

## McGrath RentCorp

## CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands)	June 30, 2015	December 31, 2014
Assets		
Cash	\$ 739	\$ 1,167
Accounts receivable, net of allowance for doubtful accounts of \$2,047 in 2015 and \$2,038 in 2014	93,974	101,294
Rental equipment, at cost:		
Relocatable modular buildings	699,781	664,340
Electronic test equipment	269,668	261,995
Liquid and solid containment tanks and boxes	307,795	303,303
	1,277,244	1,229,638
Less accumulated depreciation	(420,755 )	(403,888 )
Rental equipment, net	856,489	825,750
Property, plant and equipment, net	110,422	108,628
Prepaid expenses and other assets	33,417	41,424
Intangible assets, net	9,901	10,336
Goodwill	27,808	27,808
Total assets	\$ 1,132,750	\$ 1,116,407
Liabilities and Shareholders' Equity		
Liabilities:		
Notes payable	\$ 337,177	\$ 322,478
Accounts payable and accrued liabilities	76,636	71,357
Deferred income	29,726	29,139
Deferred income taxes, net	262,388	268,902
Total liabilities	705,927	691,876
Shareholders' equity:		
Common stock, no par value - Authorized 40,000 shares Issued and outstanding - 26,106 shares as of June 30, 2015 and 26,051 shares as of December 31, 2014	109,232	106,469
Retained earnings	317,620	318,164
Accumulated other comprehensive loss	(29 )	(102 )
Total shareholders' equity	426,823	424,531
Total liabilities and shareholders' equity	\$ 1,132,750	\$ 1,116,407

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



## McGrath RentCorp

## CONDENSED Consolidated Statements of Cash Flows

(unaudited)

(in thousands)	Six Months Ended	
	2015	2014
Cash Flows from Operating Activities :		
Net income	\$ 15,336	\$ 18,076
Adjustments to reconcile net income to net cash provided by		
operating activities:		
Depreciation and amortization	42,171	39,982
Provision for doubtful accounts	690	1,014
Share-based compensation	1,953	1,984
Gain on sale of used rental equipment	(5,565 )	(6,444 )
Gain on sale of property, plant and equipment	—	(812 )
Foreign currency exchange loss	253	10
Change in:		
Accounts receivable	6,630	(2,448 )
Prepaid expenses and other assets	8,007	(2,287 )
Accounts payable and accrued liabilities	1,715	2,236
Deferred income	587	2,080
Deferred income taxes	(6,514 )	1,781
Net cash provided by operating activities	65,263	55,172
Cash Flows from Investing Activities:		
Purchase of rental equipment	(71,237 )	(68,105 )
Purchase of property, plant and equipment	(5,832 )	(6,101 )
Proceeds from sale of used rental equipment	11,815	13,757
Proceeds from sale of property, plant and equipment	—	2,501
Net cash used in investing activities	(65,254 )	(57,948 )
Cash Flows from Financing Activities:		
Net borrowing (repayments) under bank lines of credit	34,699	(3,003 )
Borrowing under Series B senior notes	—	40,000
Principal payment on Series A senior notes	(20,000)	(20,000)
Proceeds from the exercise of stock options	1,458	302
Excess tax benefit from exercise and disqualifying disposition of		
stock options	313	1,173
Taxes paid related to net share settlement of stock awards	(584 )	(3,378 )
Repurchase of common stock	(3,132 )	—
Payment of dividends	(13,176)	(12,833)
Net cash provided by (used in) financing activities	(422 )	2,261
Effect of exchange rate changes on cash	(15 )	26
Net decrease in cash	(428 )	(489 )
Cash balance, beginning of period	1,167	1,630
Cash balance, end of period	\$ 739	\$ 1,141

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

Supplemental Disclosure of Cash Flow Information:

Interest paid, during the period	\$4,896	\$4,198
Net income taxes paid, during the period	\$1,490	