SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997 COMMISSION FILE NUMBER 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.) |

5700 LAS POSITAS ROAD, LIVERMORE, CA 94550
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

REGISTRANT'S TELEPHONE NUMBER: (925)606-9200

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|---|---|
| NONE | NONE |

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

TITLE OF CLASS

COMMON STOCK

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 [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

State the aggregate market value of voting stock, held by nonaffiliates of the registrant: $208,782,928 as of March 26, 1998.

At March 26, 1998, 14,107,890 shares of Registrant's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

McGrath RentCorp's definitive Proxy Statement with respect to its Annual Shareholders' Meeting to be held June 5, 1998, which will be filed with the Securities and Exchange commission within 120 days after the end of its fiscal year, is incorporated by reference into Part III, Items 10, 11, 12 and 13.

Exhibit index appears on page 32.

# PART I

## ITEM 1. BUSINESS

### GENERAL

McGrath RentCorp ("MGRC") and its majority owned subsidiary, Enviroplex, Inc. ("Enviroplex"), collectively referred to herein as the "Company", manufactures, rents and sells relocatable modular offices ("modulars") and electronic test and measurement instruments ("electronics") with related accessories primarily in California and Texas. The Company's corporate offices are located in Livermore, California.

MGRC is a California corporation organized in 1979. Since the Company's inception, under the trade name "Mobile Modular Management Corporation" ("MMMC"), MMMC has rented and sold modular equipment and related accessories to fulfill customers' temporary space needs. These units are used as temporary offices adjacent to existing facilities, and are used as sales offices, construction field offices, classrooms and for a variety of other purposes. MMMC purchases the modulars from various manufacturers who build them to MMMC's design specifications. MMMC operates from two branch offices in California and one in Texas. Although MMMC's primary emphasis is on rentals, sales of modulars routinely occur and can fluctuate quarter to quarter and from year to year depending on customer demands and requirements. Rentals and sales to school districts by MMMC represent a significant portion of MMMC's total revenues.

The Company conducts electronics operations under the corporate name ("McGrath RentCorp") from its northern California modular branch office, which includes the corporate offices. Engineers, scientists and technicians use these instruments in evaluating the performance of their own electrical and electronic equipment, developing products, controlling manufacturing processes and in field service applications. These instruments are rented primarily to electronics, industrial, research and aerospace companies. The majority of MGRC's rental inventory consists of instruments manufactured by Hewlett-Packard and Tektronix. The Company also conducts electronics operations specializing in telecommunication test equipment under the trade name "RenTelco" from its branch office in Richardson, Texas.

Enviroplex is a California corporation organized in 1991. Enviroplex manufactures portable classrooms built to the requirements of the California Division of the State Architect ("DSA") and sells directly to school districts. Enviroplex conducts its sales and manufacturing operations from its facility located in Stockton, California. Since inception, MGRC has financed Enviroplex's operations and assisted in a variety of corporate functions such as accounting, human resources, facility improvements, and insurance. In 1995, MGRC converted a $300,000 note receivable into a 73.2% ownership of Enviroplex. MGRC has not purchased significant quantities of manufactured product from Enviroplex. Enviroplex sales revenues were $21,287,000, $10,206,000 and $4,775,000 for 1997, 1996 and 1995, respectively.

The rental and sale of modulars to school districts for use as portable classrooms, restroom buildings and administrative offices for kindergarten through grade twelve (K-12) are a significant portion of the Company's revenues. School business comprised approximately 52%, 37% and 27% of the Company's consolidated rental and sales revenues for 1997, 1996 and 1995, respectively.

The Company has 359 employees, of whom 42 are primarily administrative and executive personnel, and the remaining 317 are engaged in manufacturing or rental operations. None of the employees are represented by unions. The operations of the Company share common facilities, financing, senior management, and operating and accounting systems which results in the efficient use of overhead. Each product line has its own sales and technical personnel.

No single customer has accounted for more than 10% of the Company's total revenues generated in any given year. Our business is not seasonal, except for the rental and sale of classrooms, which is heaviest in the several months prior to the opening of school each fall.

We are a company with a marketing sense throughout. We are constantly searching for ways both to streamline our service and to raise the quality of each relocatable office, classroom or instrument we manufacture, rent or sell. We are not only manufacturing, renting and selling products, we are selling an old-fashioned idea: Paying attention to our customers pays off.

The Company's common stock is traded on the NASDAQ National Market System under the symbol "MGRC".

This Annual Report on Form 10-K contains statements which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places. Such statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "estimates", "will", "should", "plans" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may vary materially from those in the forward-looking statements as a result of various factors. These factors include the effectiveness of management's strategies and decisions, general economic and business conditions, new or modified statutory or regulatory requirements and changing prices and market conditions. This report identifies other factors that could cause such differences. No assurance can be given that these are all of the factors that could cause actual results to vary materially from the forward-looking statements.

## RELOCATABLE MODULAR OFFICES

### DESCRIPTION

Modulars are designed for use as temporary office space and may be moved from one location to another. Modulars vary from simple single-unit construction site offices to attractive multi-module facilities, complete with wood exteriors and mansard roofs. The rental fleet includes a full range of styles and sizes. We consider our modulars to be among the most attractive and well designed available. The units are constructed with wood siding, sturdily built and physically capable of a useful life often exceeding 18 years. Units are provided with installed heat, air conditioning, lighting, electricity and floor covering, and may have customized interiors including partitioning, carpeting, cabinetwork and plumbing facilities.

MMMC purchases new modulars from various manufacturers who build to MMMC's design specifications. None of the principal suppliers are affiliated with the Company. The Company believes that the loss of any one of these suppliers would not have a material adverse effect on its operations.

### MARKETING

The market for modulars is broad. Businesses which have a need for additional space and have adjacent land or a parking lot are potential customers. Our largest single demand is for temporary classrooms. We believe the demand for classrooms is caused by shifting and fluctuating school populations, the lack of state funds for new construction, the need for temporary classroom space during reconstruction of older schools and, most recently, class size reduction (see "Classroom Rentals and Sales" below). Other applications include sales offices, administrative offices for health care facilities, universities and museums. Large multi-modular complexes are used by manufacturing, entertainment, energy and utility companies, and governmental agencies. Our branch offices, as well as our corporate office, are housed in various sizes of modulars.

Since most of our customer requirements are to fill temporary space needs, MMMC's marketing emphasis is on rentals rather than sales. MMMC solicits customers through extensive yellow-page advertising, telemarketing and direct mail. Customers are encouraged to visit an inventory center to view different models on display and to see a branch office, which itself is a working example of a modular application.

Because service is a major competitive factor in the rental of modulars, MMMC offers quick response to requests for information, assistance in the choice of a suitable size and floor plan, rapid delivery and timely maintenance of its units, both prior to delivery of the unit and while it is on rent. MMMC has a sales and maintenance staff trained in the Company's understanding of excellence in service.

RENTALS

Rental periods range from one month to ten years with a typical rental period of one year. Most rental agreements provide no purchase options; and when a rental agreement does provide the customer with a purchase option, it is generally on terms attractive to MMMC.

The customer is responsible for the costs of insuring the unit, transporting the unit to the site, preparation of the site, installation of the unit, dismantle and return of the unit to one of MMMC's three inventory centers and certain costs for customization. We maintain the units in good working order while on rent. Upon return, the units are refurbished for subsequent use. Refurbishment work can include floor tile repairs, roof maintenance, cleaning, painting and other cosmetic repairs.

At December 31, 1997, MMMC had 14,240 new or previously rented modulars in its rental fleet with an aggregate original cost including accessories of $196,132,895 or an average cost per unit of $13,773. Utilization is calculated each month by dividing the cost of rental equipment on rent by the total cost of rental equipment, excluding accessory equipment. At December 31, 1997, fleet utilization was 78.7% and average fleet utilization during 1997 (average of all the monthly figures) was 79.7%. While MMMC depreciates its modulars over 18 years, it prices its rental rates to return the equipment cost in approximately 27 to 40 months depending on the rental commitment of the customer and customization of the product.

SALES

In addition to operating its rental fleet, MMMC sells modulars to customers who have a permanent use for such units. These sales arise out of our marketing efforts for the rental fleet. Such sales can be of either new units or used units from the rental fleet, which permits an orderly turnover of older units. During 1997, MMMC's largest sale of modulars was for new classrooms to a school district for approximately $3,759,000 and represented approximately 11% of MMMC's sales, 6% of the Company's consolidated sales, and 3% of the Company's consolidated revenues.

MMMC believes that the distinction of whether a modular is used rather than new has no significant effect on its operations or profitability. While repair and maintenance costs are generally greater on older units, the purchase price of units has risen over time, and therefore the lower acquisition cost of older units tends to offset their higher maintenance costs.

MMMC provides limited 90-day warranties on used modulars and passes through manufacturers' warranties on new units. Warranty costs have not been significant to MMMC's operations to date, and MMMC attributes this to its commitment to high quality standards and regular maintenance programs.

In addition to MMMC's sales, the Company's subsidiary, Enviroplex, manufactures and sells portable classrooms to school districts in California (see "Classroom Sales by Enviroplex" below).

COMPETITION

This section contains statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. See "General" above for cautionary information with respect to such forward-looking statements.

Competition in the rental and sale of relocatable modular offices is intense. Many firms are engaged in the rental of modulars, and some have substantially greater financial resources than MMMC. Significant competitive factors in the rental business include availability, price, services, reliability, appearance and functionality of the product. MMMC markets high-quality, well constructed and attractive modulars. MMMC believes the strategy for modulars calls for creating facility and infrastructure capabilities that our competitors cannot duplicate. We have constructed three new inventory facilities over the last few years. These facilities and related infrastructure enable us to modify buildings efficiently and cost effectively to meet our customers' needs. Our goal is to be more responsive at less expense. We believe that this strategy, together with our emphasis on prompt and efficient customer service, gives us a competitive advantage. We are determined to offer quick response to requests for information, experienced assistance for the first-time user, rapid delivery and timely maintenance of our units. The efficiency and responsiveness continues to be enhanced by our computer based relational database programs that control our internal operations. MMMC anticipates strong competition in the future and believes the process of improvement is ongoing.

CLASSROOM SALES BY ENVIROPLEX

This section contains statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. See "General" above for cautionary information with respect to such forward-looking statements.

Enviroplex manufactures moment-resistant, rigid steel framed portable classrooms built to the requirements of DSA and sells directly to school districts. The moment-resistant, rigid steel framed classroom is engineered to have the structural columns support the weight of the building offering the customer more design flexibility as to overall classroom size and the placement of doors and windows. Enviroplex fabricates most of the structural steel component parts using only mill certified sheet steel. Enviroplex's standard designs have been engineered for strength and durability using lighter weight steel. Customers are offered a wide variety of DSA pre-approved classroom sizes and features with market established pricing which can save them valuable time on their classroom project. Additional customization features include restrooms, computer lab setups, interior offices, cabinetwork and kitchen facilities.

Competition in the manufacture of DSA classrooms is broad, intense, and highly competitive. Several manufacturers have greater capacity for production and have been in business longer than Enviroplex. Larger manufacturers with greater capacity have a larger appetite for the standard classroom while Enviroplex caters to schools' requirements for more customized classrooms. The remaining manufacturers are of a similar size or smaller and do not have the production capacity nor the financial resources of Enviroplex.

Enviroplex manufactures solid, attractive classrooms. Through value engineering, Enviroplex has simplified its manufacturing process by changing materials, determining which components are made in-house versus purchased, reducing the number of components and increasing the production efficiency at an overall lower cost without sacrificing quality. Enviroplex's strategy is to improve the quality and flexibility of its product. Enviroplex understands that its customers want more than a quality classroom, competitively priced and delivered on time, and believes its niche is providing customers with choices in design flexibility and customization. We believe this strategy gives Enviroplex a competitive edge.

Enviroplex purchases raw materials from a variety of suppliers. Each component part has multiple suppliers. Enviroplex believes the loss of any one of these suppliers would not have a material adverse affect on its operations.

CLASSROOM RENTALS AND SALES

The rental and sales of modulars to school districts for use as portable classrooms, restroom buildings and administrative offices for kindergarten through grade twelve (K-12) are a significant portion of the Company's revenues. The following table shows the approximate percentages schools are of the Company's modular rental and sales, and of its consolidated rental and sales revenues for the past five years:

SCHOOLS AS A PERCENTAGE OF RENTAL AND SALES REVENUES

| PERCENTAGE OF: | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| Modular Rental Revenues | 45% | 40% | 34% | 38% | 38% |
| Modular Sales Revenues | 74% | 54% | 38% | 24% | 30% |
| Consolidated Rental and Sales Revenues | 52% | 37% | 27% | 27% | 29% |

The increases shown for 1996 and 1997 can be attributed to the Class Size Reduction Program instituted by the state of California. School districts were given great incentive to reduce class size in the lower grades from a typical 30 students to no greater than 20 students. This highly popular program has created a great demand for both purchasing and renting classroom buildings.

In California (where most of the Company's rentals to school districts have occurred), school districts are permitted to purchase only portable classrooms built to the requirements of DSA. However, school districts may rent classrooms that meet either the Department of Housing ("DOH") or DSA requirements. Prior to 1988 the majority of the classrooms in the Company's rental fleet were built to the DOH requirements, and since 1988 the majority of new classrooms have been built to the DSA requirements. In 1988, California adopted a law which limits the term for which school districts may rent portable classrooms built to DOH standards to three years (under a waiver process), and which also requires the school board to indemnify the State against any claims arising out of the use of such classrooms. As a consequence, the tendency is for school districts to rent the DOH classrooms for shorter periods and to rent the DSA classrooms for longer periods. In 1993, a new law went into effect that allowed school districts which already had DOH classrooms to continue to rent them for an additional three years (i.e. up to six years in total). New orders for DOH classrooms placed after 1992 were restricted to the three year limitation as before. However, still newer legislation has been adopted that eliminates the issuance of new waivers after September 30, 1997 but extends all existing waivers until September 30, 2000.

Unrelated to the waiver process, new regulations are in place that allow the ongoing use of DOH classrooms to meet the shorter term space needs of school districts for periods up to 24 months, provided they receive a "Temporary Certification" from DSA.

All of the Company's DOH classrooms, with the exception of the 24' x 40' standard classrooms, are also suitable for rent to non-school customers for commercial uses. Generally, the 24' x 40' standard classrooms are not popular for commercial use. The following table shows the comparison of, and shift from 24' x 40' standard DOH classrooms to DSA classrooms marketed to school districts as of December 31, 1997, 1996, 1995, 1994, and 1993. Please note how the inventory has shifted to the DSA classrooms.

CLASSROOM COMPARISON

| (DOLLAR AMOUNTS IN THOUSANDS) | DECEMBER 31, 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| 24' x 40' Standard DOH Classrooms | | | | | |
| Rental Equipment, at cost, on rent | $13,960 | $13,738 | $10,449 | $13,114 | $15,014 |
| Rental Equipment, at cost, off rent | 765 | 1,834 | 5,015 | 3,258 | 1,928 |
| Total Rental Equipment, at cost | $14,725 | $15,572 | $15,464 | $16,372 | $16,942 |
| Total Rental Equipment, net book value | $ 7,849 | $ 8,952 | $ 9,324 | $10,650 | $11,986 |
| Utilization (year-end)(1) | 94.8% | 88.2% | 67.6% | 80.1% | 88.6% |
| DSA Classrooms | | | | | |
| Rental Equipment, at cost, on rent | $44,452 | $26,488 | $17,454 | $18,644 | $17,281 |
| Rental Equipment, at cost, off rent | 1,308 | 611 | 3,653 | 1,829 | 1,236 |
| Total Rental Equipment, at cost | $45,760 | $27,099 | $21,107 | $20,473 | $18,517 |
| Total Rental Equipment, net book value | $39,535 | $22,399 | $17,115 | $17,304 | $16,026 |
| Utilization (year-end)(1) | 97.1% | 97.7% | 82.7% | 91.1% | 93.3% |

(1) Utilization is calculated as of December 31, by dividing the original cost of equipment on rent by the original cost of all equipment in the rental equipment category, excluding new classrooms not previously rented and accessory equipment.

## ELECTRONIC TEST AND MEASUREMENT INSTRUMENTS

### DESCRIPTION

The Company's rental inventory includes electronic instruments such as oscilloscopes, spectrum analyzers, logic analyzers, signal generators, frequency counters, protocol analyzers, cable locators, fiber optic and sonet equipment. The Company also rents electronic instruments from other rental companies and re-rents the instruments to customers.

At December 31, 1997, the Company had an aggregate cost of electronics rental inventory and accessories of $50,350,777. Utilization is calculated each month by dividing the cost of the rental equipment on rent by the total cost of the rental equipment, excluding accessory equipment. At December 31, 1997 utilization was 52.6%, and the average utilization during 1997 (average of the monthly figures) was 54.9%. The Company rents electronics equipment for a typical rental period of one to six months at monthly rental rates ranging from approximately 3.0% to 10.0% of the current manufacturers' list price. The Company depreciates its equipment over 5 to 8 years.

The Company endeavors to keep its equipment fresh and attempts to sell equipment so that the majority of the inventory is less than five years old. The Company generally sells used equipment after approximately four years of service to permit an orderly turnover and replenishment of the electronics inventory. In 1997, approximately 26% of the electronics revenues were derived from sales. The largest electronics sale during 1997 represented less than 1% of the Company's consolidated revenues.

### MARKET

The business of renting electronic test and measurement instruments is an industry which emerged approximately 30 years ago, and which today has equipment on rent or available for rent in the United States with an aggregate original cost of several hundred million dollars. While there is a broad customer base for the rental of such instruments, most rentals are to electronics, industrial, research and aerospace companies. To date, the Company has focused its marketing efforts in California and Texas and has shipped on a limited basis to other states. Currently, the Company is emphasizing its marketing efforts beyond California and Texas and has expanded its sales staff to include outside sales representatives in other geographical areas of the United States.

We believe that customers rent electronic test and measurement instruments for many reasons. Customers frequently need equipment for short-term projects, for backup to avoid costly down-time and to evaluate new products. Delivery times for the purchase of such equipment can be lengthy; thus, renting allows the customer to obtain the equipment expeditiously. We also believe that a substantial portion of electronic test and measurement instruments are used for research and development projects where the relative certainty of rental costs can facilitate cost control and be useful in bidding for government contracts. Finally, as is true with the rental of any equipment, renting rather than purchasing may better satisfy the customer's budgetary constraints.

The industry is dominated by three major companies. Two of these companies are much larger than the Company, have substantially greater financial resources and are well established in the industry with large inventories of equipment, several branch offices and experienced personnel.

# PRODUCT HIGHLIGHTS

The following table shows the revenue components, percentage of total revenues, rental equipment (at cost), rental equipment (net book value), number of relocatable modular offices, year-end and average utilization, average rental equipment (at cost), annual yield on average rental equipment (at cost) and gross margin on sales by product line for the past five years.

PRODUCT HIGHLIGHTS

| | YEAR ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| (DOLLAR AMOUNTS IN THOUSANDS) | 1997 | 1996 | 1995 | 1994 | 1993 |
| RELOCATABLE MODULAR OFFICES | | | | | |
| (operates under MMMC and Enviroplex) | | | | | |
| Revenues | | | | | |
| Rental | $ 41,514 | $ 31,931 | $ 31,577 | $ 33,386 | $ 30,565 |
| Rental Related Services | 9,898 | 8,399 | 7,527 | 7,893 | 6,320 |
| Total Modular Rental Operations | 51,412 | 40,330 | 39,104 | 41,279 | 36,885 |
| Sales -- MMMC | 33,522 | 14,359 | 6,572 | 9,039 | 6,153 |
| Sales -- Enviroplex | 21,287 | 10,206 | 4,775 | -- | -- |
| Total Modular Sales | 54,809 | 24,565 | 11,347 | 9,039 | 6,153 |
| Other | 690 | 908 | 1,432 | 1,165 | 1,019 |
| Total Modular Revenues | $106,911 | $ 65,803 | $ 51,883 | $ 51,483 | $ 44,057 |
| Percentage of Total Revenues | 79.2% | 73.9% | 72.8% | 75.4% | 77.1% |
| Rental Equipment, at cost (year-end) | $196,133 | $158,377 | $150,389 | $148,111 | $140,100 |
| Rental Equipment, net book value (year-end) | $142,816 | $110,014 | $106,266 | $109,392 | $106,827 |
| Number of Units (year-end) | 14,240 | 11,582 | 10,868 | 10,892 | 10,691 |
| Utilization (year-end)(1) | 78.7% | 78.6% | 71.0% | 78.3% | 76.7% |
| Average Utilization(1) | 79.7% | 72.1% | 73.9% | 79.3% | 77.0% |
| Average Rental Equipment, at cost | $172,680 | $151,818 | $149,371 | $144,847 | $136,909 |
| Annual Yield on Average Rental Equipment, at cost | 24.0% | 21.0% | 21.1% | 23.0% | 22.3% |
| Gross Margin on Sales | 31.2% | 30.7% | 29.3% | 28.7% | 26.4% |
| ELECTRONIC TEST AND MEASUREMENT INSTRUMENTS | | | | | |
| (operates under McGrath RentCorp and RenTelco) | | | | | |
| Revenues | | | | | |
| Rental | $ 20,174 | $ 17,055 | $ 14,486 | $ 12,763 | $ 10,128 |
| Rental Related Services | 380 | 319 | 268 | 265 | 245 |
| Total Electronics Rental Operations | 20,554 | 17,374 | 14,754 | 13,028 | 10,373 |
| Sales | 7,212 | 5,610 | 4,492 | 3,661 | 2,615 |
| Other | 299 | 218 | 144 | 123 | 90 |
| Total Electronics Revenues | $ 28,065 | $ 23,202 | $ 19,390 | $ 16,812 | $ 13,078 |
| Percentage of Total Revenues | 20.8% | 26.1% | 27.2% | 24.6% | 22.9% |
| Rental Equipment, at cost (year-end) | $ 50,350 | $ 43,335 | $ 35,168 | $ 29,732 | $ 26,825 |
| Rental Equipment, net book value (year-end) | $ 31,269 | $ 27,279 | $ 21,342 | $ 17,852 | $ 16,604 |
| Utilization (year-end)(1) | 52.6% | 51.8% | 53.8% | 55.6% | 50.9% |
| Average Utilization(1) | 54.9% | 54.9% | 55.2% | 56.0% | 52.3% |
| Average Rental Equipment, at cost | $ 46,483 | $ 39,335 | $ 32,255 | $ 27,754 | $ 23,790 |
| Annual Yield on Average Rental Equipment, at cost | 43.4% | 43.4% | 44.9% | 46.0% | 42.6% |
| Gross Margin on Sales | 33.2% | 37.3% | 39.6% | 40.2% | 32.7% |
| Total Revenues | $134,976 | $ 89,005 | $ 71,273 | $ 68,295 | $ 57,135 |

(1) Utilization is calculated each month by dividing the cost of rental equipment on rent by the total cost of rental equipment, excluding accessory equipment. The average utilization for the year is the average of the monthly utilization figures.

ITEM 2. PROPERTIES

The Company currently conducts its operations from five locations. Inventory centers, at which relocatable modular offices are displayed, refurbished and stored are located in Livermore, California (San Francisco Bay Area), Mira Loma, California (Los Angeles Area) and Pasadena, Texas (Houston Area). These three branches conduct rental and sales operations from multi-unit, relocatable modular offices, serving as working models of the Company's product. Electronic test and measurement instrument rental and sales operations are conducted from the Livermore facility and from the RenTelco facility in Richardson, Texas (Dallas Area). The Company's majority owned subsidiary, Enviroplex, manufactures portable classrooms from its facility in Stockton, California (San Francisco Bay Area).

The following table sets forth for each property the total acres, square footage of office space, square footage of warehouse space and total square footage at December 31, 1997. Except as noted, all properties are owned by the Company.

FACILITIES

| | | SQUARE FOOTAGE | | |
|---|---|---|---|---|
| | TOTAL ACRES | OFFICE | WAREHOUSE | TOTAL |
| CORPORATE OFFICES | | | | |
| Livermore, California(1) | -- | 9,840 | -- | 9,840 |
| RELOCATABLE MODULAR OFFICES | | | | |
| Livermore, California(1)(2) | 139.7 | 7,680 | 53,440 | 61,120 |
| Mira Loma, California | 78.5 | 7,920 | 45,440 | 53,360 |
| Corona, California(3) | 20.0 | 4,320 | 3,600 | 7,920 |
| Pasadena, Texas(4) | 56.0 | 3,868 | 24,000 | 27,868 |
| Arlington, Texas(5) | 1.8 | 1,680 | 2,387 | 4,067 |
| ELECTRONIC TEST AND MEASUREMENT INSTRUMENTS | | | | |
| Livermore, California(1) | -- | 8,400 | 7,920 | 16,320 |
| Richardson, Texas(6) | -- | 2,640 | 3,971 | 6,611 |
| ENVIROPLEX, INC. | | | | |
| Stockton, California | 13.9 | 3,365 | 102,050 | 105,415 |
| | 309.9 | 49,713 | 242,808 | 292,521 |

(1) The modular office complex in Livermore, California is 33,840 square feet and includes the Corporate offices and both modulars and electronics branch operations.

(2) Of the 139.7 acres owned, 2.2 acres with an 8,000 square foot warehouse facility is rented out to a third party through March, 2008, and 35.8 acres are undeveloped.

(3) Facility is for sale or lease.

(4) Of 56 acres, 6 acres are rented by the Company on a month to month basis and 16 acres are undeveloped.

(5) Facility rented out to a third party through August 1998; lessor has two year option to extend.

(6) Leased office and warehouse space through April 1999.

ITEM 3. LEGAL PROCEEDINGS

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

## ITEM 5. MARKET FOR REGISTRANTS COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded in the NASDAQ National Market System under the symbol "MGRC".

The Company's common stock was split 2-for-1 on April 15, 1997. All share and per share information in the 1997 Form 10-K reflects this stock split.

The market price (as quoted by NASDAQ) and cash dividends declared, per share of the Company's common stock, by calendar quarter for the past two years were as follows:

STOCK ACTIVITY

| | 1997 | | | | 1996 | | | |
|---|---|---|---|---|---|---|---|---|
| | 4Q | 3Q | 2Q | 1Q | 4Q | 3Q | 2Q | 1Q |
| High | $28.50 | $24.75 | $21.25 | $15.63 | $13.50 | $13.63 | $11.25 | $10.00 |
| Low | $20.00 | $18.75 | $14.13 | $12.25 | $11.75 | $ 8.38 | $ 9.63 | $ 8.88 |
| Close | $24.50 | $22.88 | $20.50 | $14.94 | $12.88 | $13.00 | $11.25 | $ 9.63 |
| Dividends Declared | $ 0.08 | $ 0.08 | $ 0.08 | $ 0.08 | $ 0.07 | $ 0.07 | $ 0.07 | $ 0.07 |

As of March 26, 1998, the Company's common stock was held by approximately 131 shareholders of record, which does not include shareholders whose shares are held in street or nominee name. The Company believes that when holders in street or nominee name are added, the number of holders of the Company's common stock exceeds 500.

The Company has declared a quarterly dividend on its common stock every quarter since 1990. Subject to its continued profitability and favorable cash flow, the Company intends to continue the payment of quarterly dividends.

In April 1997, the Company issued an aggregate of 28,000 shares of its common stock to Dennis C. Kakures and Thomas J. Sauer, both officers of the Company, pursuant to the Company's Long-Term Stock Bonus Plan (as described in the Company's Proxy Statement). Under the same Plan, the Company had issued to the same two officers an aggregate of 21,820 shares of common stock in March, 1996, and 13,572 shares in April 1995. These issuances were exempt from the registration requirements of the Securities Act of 1933 by virtue of section 4(2) thereof and Regulation 230.506.

During 1995 and 1996, the Company issued an aggregate of 247,932 shares of its common stock to key employees of the Company upon exercises of incentive stock options held by the employees under the Company's 1987 Incentive Stock Option Plan. These issuances were exempt from the registration requirements of the Securities Act of 1933 by virtue of section 4(2) thereof and Regulation 230.506. The Plan was registered under the Securities Act of 1933 at the end of 1996, and all stock issuances upon exercise of options thereafter were registered.

ITEM 6. SELECTED FINANCIAL DATA

The following table summarizes the Company's selected financial data for the five years ended December 31, 1997 and should be read in conjunction with the more detailed Consolidated Financial Statements and related notes reported in Item 8.

SELECTED CONSOLIDATED FINANCIAL DATA

| | YEAR ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 1997 | 1996 | 1995 | 1994 | 1993 |
| | (DOLLAR AND SHARE AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA) | | | | |
| Operations Data | | | | | |
| Revenues | | | | | |
| Rental | $ 61,688 | $ 48,986 | $ 46,063 | $ 46,149 | $ 40,693 |
| Rental Related Services | 10,278 | 8,718 | 7,795 | 8,158 | 6,565 |
| Rental Operations | 71,966 | 57,704 | 53,858 | 54,307 | 47,258 |
| Sales | 62,021 | 30,175 | 15,839 | 12,700 | 8,768 |
| Other | 989 | 1,126 | 1,576 | 1,288 | 1,109 |
| Total Revenues | 134,976 | 89,005 | 71,273 | 68,295 | 57,135 |
| Costs and Expenses | | | | | |
| Direct Costs of Rental Operations | | | | | |
| Depreciation | 14,358 | 12,456 | 11,539 | 11,018 | 10,441 |
| Rental Related Services | 6,287 | 5,515 | 5,024 | 5,707 | 4,792 |
| Other | 10,375 | 8,703 | 7,370 | 7,544 | 7,237 |
| Total Direct Costs of Rental Operations | 31,020 | 26,674 | 23,933 | 24,269 | 22,470 |
| Cost of Sales | 42,550 | 20,532 | 10,735 | 8,634 | 6,285 |
| Total Costs | 73,570 | 47,206 | 34,668 | 32,903 | 28,755 |
| Gross Margin | 61,406 | 41,799 | 36,605 | 35,392 | 28,380 |
| Selling and Administrative | 15,957 | 13,147 | 10,459 | 10,747 | 9,218 |
| Income from Operations | 45,449 | 28,652 | 26,146 | 24,645 | 19,162 |
| Interest | 4,070 | 2,887 | 2,831 | 2,166 | 1,761 |
| Income before Provision for Income Taxes | 41,379 | 25,765 | 23,315 | 22,479 | 17,401 |
| Provision for Income Taxes | 16,323 | 9,885 | 9,375 | 9,475 | 6,764 |
| Income before Minority Interest | 25,056 | 15,880 | 13,940 | 13,004 | 10,637 |
| Minority Interest in Income of Subsidiary | 1,011 | 358 | 97 | -- | -- |
| Net Income | $ 24,045 | $ 15,522 | $ 13,843 | $ 13,004 | $ 10,637 |
| Cash Flow From Operating Activities | $ 59,153 | $ 34,688 | $ 32,611 | $ 34,566 | $ 25,889 |
| Net Income Per Common Share: | | | | | |
| Basic | $ 1.60 | $ 1.03 | $ 0.87 | $ 0.79 | $ 0.64 |
| Diluted | $ 1.58 | $ 1.01 | $ 0.86 | $ 0.77 | $ 0.63 |
| Cash Flow Per Common Share | | | | | |
| Basic | $ 3.95 | $ 2.30 | $ 2.04 | $ 2.09 | $ 1.56 |
| Diluted | $ 3.90 | $ 2.27 | $ 2.02 | $ 2.05 | $ 1.54 |
| Shares Used in Per Share Calculation: | | | | | |
| Basic | 14,982 | 15,102 | 15,949 | 16,559 | 16,613 |
| Diluted | 15,181 | 15,306 | 16,168 | 16,831 | 16,816 |
| Cash Dividends Declared Per Common Share(1) | $ 0.32 | $ 0.28 | $ 0.24 | $ 0.22 | $ 0.20 |

SELECTED CONSOLIDATED FINANCIAL DATA (CONTINUED)

| | YEAR ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 1997 | 1996 | 1995 | 1994 | 1993 |
| | (DOLLAR AND SHARE AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA) | | | | |
| BALANCE SHEET DATA (AT PERIOD END) | | | | | |
| Rental Equipment, net | $174,085 | $137,292 | $127,608 | $127,244 | $123,431 |
| Total Assets | $252,392 | $200,035 | $175,130 | $169,923 | $161,427 |
| Notes Payable | $ 82,000 | $ 53,850 | $ 37,080 | $ 35,950 | $ 40,100 |
| Shareholders' Equity | $ 98,646 | $ 88,808 | $ 85,893 | $ 83,839 | $ 76,071 |
| Shares Outstanding | 14,522 | 14,820 | 15,540 | 16,317 | 16,625 |
| Book Value Per Share | $ 6.79 | $ 5.99 | $ 5.53 | $ 5.14 | $ 4.58 |
| Debt (Notes Payable) to Equity | 0.83 | 0.61 | 0.43 | 0.43 | 0.53 |
| Return on Average Equity | 24.5% | 18.0% | 16.4% | 16.1% | 14.7% |

(1) Dividends for 1994 includes $0.055 per share declared in January 1995.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### RESULT OF OPERATIONS

#### General

Revenues are derived primarily from the rental of relocatable modular offices and electronic test and measurement instruments. The Company has expanded the rental inventory of relocatable modular offices and electronic instruments. This expansion has been funded through internal cash flow and conventional bank financing.

The major portion of the Company's revenue is derived from rental operations comprising approximately 54% of consolidated revenues in 1997 and 62% of consolidated revenues for the three years ended December 31, 1997. Over the past three years modulars comprised 71% of the cumulative rental operations, and electronics comprised 29% of the cumulative rental operations.

The Company sells both modular and electronic equipment, which is new, previously rented, or manufactured by its majority owned subsidiary, Enviroplex. In the case of some modular equipment, the Company acts as a dealer of relocatable modular offices and is licensed as a dealer by governmental agencies in California and Texas. Revenues from sales of both modular and electronic equipment have comprised approximately 46% of the Company's consolidated revenues in 1997 and 37% of the Company's consolidated revenues over the last three years. During these three years, modular sales represented 84% and electronic sales represented 16%.

The rental and sale of modulars to school districts is a significant part of the Company's business. School business comprised 52%, 37% and 27% of the Company's consolidated rental and sales revenues for 1997, 1996 and 1995. The increases in the Company's sales and rental revenues in both 1997 and 1996 can be attributed to the Class Size Reduction Program implemented by the state of California in 1996 (see "Business -- Relocatable Modular Offices -- Classroom Rentals and Sales" above).

The following table sets forth for the periods indicated the results of operations as a percentage of revenues and the percentage of changes in such items as compared to the indicated prior period:

| | PERCENTAGE OF REVENUES | | | | PERCENTAGE CHANGE | |
|---|---|---|---|---|---|---|
| | | YEAR ENDED DECEMBER 31, | | | | |
| | THREE YEARS 1997-1995 | 1997 | 1996 | 1995 | 1997 OVER 1996 | 1996 OVER 1995 |
| Revenues | | | | | | |
| Rental | 53% | 46% | 55% | 65% | 26% | 6% |
| Rental Related Services | 9 | 8 | 10 | 11 | 18 | 12 |
| Rental Operations | 62 | 54 | 65 | 76 | 25 | 7 |
| Sales | 37 | 46 | 34 | 22 | 106 | 91 |
| Other | 1 | nm | 1 | 2 | nm | nm |
| Total Revenues | 100 | 100 | 100 | 100 | 52 | 25 |
| Costs and Expenses | | | | | | |
| Direct Costs of Rental Operations | | | | | | |
| Depreciation | 13 | 11 | 14 | 16 | 15 | 8 |
| Rental Related Services | 6 | 5 | 6 | 7 | 14 | 10 |
| Other | 9 | 7 | 10 | 11 | 19 | 18 |
| Total Direct Costs of Rental Operations | 28 | 23 | 30 | 34 | 16 | 11 |
| Cost of Sales | 25 | 32 | 23 | 15 | 107 | 91 |
| Total Costs | 53 | 55 | 53 | 49 | 56 | 36 |
| Gross Margin | 47 | 45 | 47 | 51 | 47 | 14 |
| Selling and Administrative | 13 | 12 | 15 | 15 | 21 | 26 |
| Income from Operations | 34 | 33 | 32 | 36 | 59 | 10 |
| Interest | 3 | 2 | 3 | 3 | 41 | 2 |
| Income before Provision for Income Taxes | 31 | 31 | 29 | 33 | 61 | 11 |
| Provision for Income Taxes | 12 | 12 | 12 | 14 | 65 | 5 |
| Income before Minority Interest | 19 | 19 | 17 | 19 | 58 | 14 |
| Minority Interest in Income of Subsidiary | 1 | 1 | nm | nm | nm | nm |
| Net Income | 18% | 18% | 17% | 19% | 55% | 12% |

nm = not meaningful

FISCAL YEARS 1997 AND 1996

This section contains statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. See "General" above for cautionary information with respect to such forward-looking statements.

California's Class Size Reduction Program (a law enacted in July 1996) provided for facility and operational funding for the reduction of classroom size for kindergarten through third grade to 20 pupils. The Company's consolidated revenues increased $45,971,000 (52%) in 1997 over 1996 with approximately $35,591,000 (77%) of the revenue increase related to California's Class Size Reduction Program. Of the $35,591,000 revenue increase, $5,909,000 came from MMMC's increase in rental revenue, $18,601,000 came from MMMC's increase in sales revenue, and $11,081,000 came from Enviroplex's increase in sales revenue. MMMC sold $6,204,000 of classrooms in 1996, of which $3,896,000 were new. In 1997, MMMC sales of classrooms rose to $24,805,000, of which $18,795,000 were new. But in late 1997, as the industry's capacity to produce classrooms increased and the school districts demand for new classrooms decreased, school districts were more often able to purchase new classrooms directly from manufacturers rather than from MMMC. All of Enviroplex's sales of $10,206,000 in 1996 and $21,287,000 in 1997 were of new classrooms manufactured by Enviroplex.

Future rental and sales of classrooms by the Company under the Class Size Reduction Program are subject to the state's funding of the program, the requirements of the various school districts and available supplies. In 1997, the Company's rental revenues related to schools increased and reflect only a partial year of rental revenues associated with classrooms shipped in the latter part of 1997. Management believes rental revenues related to schools in 1998 will continue to increase because of the full year's rental revenue impact of classrooms shipped in the latter part of 1997 and new classroom requirements. However, management expects sales of new classrooms by MMMC in 1998 will decline from the 1997 levels and will not be sustainable at the 1997 sales levels in the future as school districts are able to fill their requirements directly with manufacturers. The decline in new classroom sales could be offset to some degree by an increase in sales to schools purchasing classrooms which are currently on rent depending on the schools' funding and long term requirements. Since Enviroplex's core business is to manufacture and sell classrooms directly to school districts, we believe Enviroplex will have increased opportunities in 1998. Enviroplex's backlog of orders was $11,435,000 as of December 31, 1997, as compared to $11,309,000 on the same date a year earlier. (Backlog is not significant in MMMC's modular business nor in the Company's electronic business.)

Rental revenues increased $12,702,000 (26%) over 1996, with MMMC contributing $9,583,000 and electronics contributing $3,119,000. Average utilization for modulars increased from 72.1% in 1996 to 79.7% in 1997 resulting in an increase in modulars annual yield from 21.0% to 24.0% of average equipment cost. Average utilization for electronics (54.9%) and annual yield (43.4%) remained the same for 1997 as it was in 1996.

Rental related services in 1997 increased $1,560,000 (18%) over 1996. A majority of the increase is due to one commercial project with significant site work requirements. The gross margin on rental related services increased slightly from 36.7% in 1996 to 38.8% in 1997.

Sales in 1997 increased $31,846,000 (106%) over 1996 as a result of the Class Size Reduction Program in California. During 1997, the Company's largest sale was for new classrooms to a school district for approximately $3,759,000 and represented 6% of its sales. Gross margin on sales declined slightly from 32.0% in 1996 to 31.4% in 1997. Sales continue to occur routinely as a normal part of the Company's rental business; however, these sales can fluctuate from quarter to quarter and year to year depending on customer demands and requirements.

Depreciation on rental equipment increased $1,902,000 (15%) in 1997 over 1996 due to the additional rental equipment purchased during 1997. Rental equipment, at cost, increased 22% during 1997. Other direct costs of rental operations increased $1,672,000 (19%) due to increased material, repair and direct labor expenses ($1,075,000) related to the school business activity. Additionally, more customers requested that certain lease costs be charged to them in the rental rate rather than as a one time charge. This resulted in higher amortization expense of lease costs ($483,000) for items recovered in the customer's rental rate.

Selling and administrative expenses increased $2,810,000 (21%) in 1997 over 1996. The increased school business has translated into higher personnel costs. Personnel costs increased $1,753,000 over 1996 resulting from additional staff for sales and support, increased temporary contract labor, and increased sales and performance bonuses.

Interest expense increased $1,183,000 (41%) in 1997 over 1996 as a result of 45% higher average borrowing levels offset slightly by lower interest rates in 1997. The debt increase funded in part the significant rental equipment purchases made during 1997.

Income before provision for income taxes increased $15,614,000 (61%) in 1997 over 1996 while net income increased $8,523,000 (55%). The lower percentage increase for net income in 1997 is due to the increase in minority interest in income of Enviroplex combined with a higher effective tax rate in 1997 of 39.4% compared to 38.4% in 1996. Basic earnings per share increased 55% from $1.03 in 1996 to $1.60 in 1997.

FISCAL YEARS 1996 AND 1995

The Company experienced a significant increase of orders during the last six months of 1996 primarily related to the Class Size Reduction Program in California.

Rental revenues increased $2,923,000 (6%) over 1995, with electronics contributing $2,569,000 and relocatable modular offices contributing $354,000 of the increase. Average utilization in 1996 for modular equipment declined, from 73.9% to 72.1%, and slightly declined for electronic equipment, from 55.2% to 54.9%, as compared to 1995. However, as a result of the significant volume of shipments to school districts during the last five months of 1996, modular utilization increased to 78.6% as of December 31, 1996, compared to 71.0% as of December 31, 1995. Rental revenues for 1996 reflect only a partial year of rental revenues associated with the classrooms shipped in the last five months of 1996.

Rental related services revenues in 1996 increased $923,000 (12%) over 1995 due to additional site requirements and the significant increase in the movement of classrooms to school districts. Gross margins remained approximately the same, 37% in 1996 and 36% in 1995. Other revenues declined $450,000 (29%) as a result of additional incentive fees earned by the Company in 1995 for equipment management which were not repeated in 1996.

Sales revenues in 1996 increased $14,336,000 (91%) over 1995. Of the increase in sales revenues, $7,787,000 came from MMMC's operations, $5,431,000 came from Enviroplex's operations and $1,118,000 came from the electronics operations. The significant increase in MMMC's sales in 1996 was primarily due to the higher demand by school districts as a result of the implementation of the Class Size Reduction Program in California. Of the sales of modular equipment in 1996, 67% were new and 33% were used equipment. The single largest sale was for $1,517,000 by Enviroplex to a school district consisting of manufactured portable classrooms of various sizes. Consolidated gross margin on sales remained consistent at 32% in both 1996 and 1995. Sales from quarter to quarter and year to year have fluctuated depending on customer requirements.

Depreciation on rental equipment in 1996 increased $917,000, an 8% increase over 1995 due to the increase in rental equipment. Other direct costs of rental operations increased $1,333,000 (18%) from 1995 due to material, repair and labor costs directly related to the modular equipment movement during the last five months of 1996. Of the $1,333,000 increase, direct labor costs accounted for $608,000 due to the additional use of outside contract labor, increased staffing and overtime premiums to assist in the preparation of modular equipment for potential lease and sale opportunities.

Selling and administrative expenses increased $2,688,000 (26%) over 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 $3,018,000 (30%) for 1996, net of the reduction in facilities rental expense due to the relocation of modular office operations in Southern California and Texas to owned facilities. Personnel costs accounted for $2,134,000 of the increase, which included higher staffing levels and increases in sales and performance bonuses. Additionally, selling and administrative expense increases of $239,000 by Enviroplex also contributed to the overall increase.

Income before provision for taxes increased $2,450,000 (11%) in 1996 over 1995 while net income increased $1,679,000 (12%). The higher percentage increase for net income is due to a lower effective tax rate in 1996 of 38.4% compared to 40.2% in 1995. Basic earnings per share increased 18%, from $0.87 per share in 1995 to $1.03 per share in 1996, as a result of higher earnings coupled with fewer outstanding shares.

LIQUIDITY AND CAPITAL RESOURCES

This section contains statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. See "General" above for cautionary information with respect to such forward-looking statements.

The Company requires substantial capital in order to maintain an available inventory of relocatable modular offices and electronic test and measurement instruments necessary to satisfy customer requirements in a timely manner. In 1997, as in prior years, the primary use of cash was for the purchase of rental equipment. During the last three years, the growth of the rental inventory has been financed primarily by cash flow from operations and bank borrowings. During 1997, the Company demonstrated its strong cash flow by increasing rental assets by $44,771,000, increasing land improvements, furniture and operating equipment by $9,150,000, repurchasing $10,545,000 of common stock and paying dividends of $4,641,000, while increasing its debt by only $28,150,000 during the year.

The Company believes that bank borrowings will continue to be a source of funds for the purchase of rental equipment. As the Company's assets have grown, it has been able to negotiate increases in the borrowing limit under its general bank line of credit to its current $90,000,000 limit consistent with its increased asset base. In addition to the $90,000,000 line of credit, the Company has a $3,000,000 committed line of credit facility related to its cash management services and has $10,000,000 of uncommitted optional advance facilities. Although no assurance can be given, the Company believes it will continue to be able to negotiate higher limits on its general bank line of credit adequate to meet capital requirements not otherwise met by operational cash flows.

The Company had a total liabilities to equity ratio of 1.56 to 1 and 1.25 to 1 as of December 31, 1997 and 1996, respectively. The debt (notes payable) to equity ratio was 0.83 to 1 and 0.61 to 1 at December 31, 1997 and 1996, respectively.

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. Shares repurchased by the Company are canceled and returned to the status of authorized but unissued stock. The following table summarizes the repurchases of the Company's common stock during 1997, 1996, 1995 and the three year totals as to the number of shares, the aggregate purchase price and the average price per share.

REPURCHASE SUMMARY

| | YEAR ENDED DECEMBER 31, | | | THREE YEAR |
|---|---|---|---|---|
| | 1997 | 1996 | 1995 | TOTALS |
| Shares Repurchased...................... | 502,408 | 841,100 | 872,132 | 2,215,640 |
| Aggregate Purchase Price................ | $10,544,580 | $8,778,775 | $7,374,279 | $26,697,634 |
| Average Price Per Share................. | $ 20.99 | $ 10.44 | $ 8.46 | $ 12.05 |

In March 1998, the Company repurchased 439,450 shares of its outstanding common stock for an aggregate purchase price of $8,795,263 (or an average price of $20.01 per share). On March 26, 1998, the Company's Board of Directors authorized the repurchase of up to 1,000,000 shares of its common stock.

The Company believes that its needs for working capital and capital expenditures through 1998 and beyond will be adequately met by cash flow and bank borrowings.

YEAR 2000

This section contains statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. See "General" above for cautionary information with respect to such forward-looking statements.

The Company currently is modifying its computer system programming to process transactions in the year 2000. Anticipated expenditures for these modifications will be expensed as incurred and are not expected to have a significant impact on the Company's ongoing results of operations.

IMPACT OF INFLATION

Although the Company cannot precisely determine the effect of inflation, from time to time it has experienced increases in costs of rental equipment, manufacturing costs, operating expenses and interest.

Because most of its rentals are relatively short term, the Company has generally been able to pass on such increased costs through increases in rental rates and selling prices.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA


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## REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors of McGrath RentCorp:

We have audited the accompanying consolidated balance sheets of McGrath RentCorp (a California corporation) and subsidiary as of December 31, 1997 and 1996, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of McGrath RentCorp as of December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

San Francisco, California
February 20, 1998

MCGRATH RENTCORP

CONSOLIDATED STATEMENTS OF INCOME

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1997 | 1996 | 1995 |
| REVENUES | | | |
| Rental | $61,687,917 | $48,986,436 | $46,062,913 |
| Rental Related Services | 10,277,674 | 8,717,727 | 7,795,514 |
| Rental Operations | 71,965,591 | 57,704,163 | 53,858,427 |
| Sales | 62,021,240 | 30,174,858 | 15,838,800 |
| Other | 989,410 | 1,126,017 | 1,575,584 |
| Total Revenues | 134,976,241 | 89,005,038 | 71,272,811 |
| COSTS AND EXPENSES | | | |
| Direct Costs of Rental Operations | | | |
| Depreciation | 14,358,251 | 12,456,193 | 11,538,628 |
| Rental Related Services | 6,287,058 | 5,514,811 | 5,023,552 |
| Other | 10,374,908 | 8,703,179 | 7,370,474 |
| Total Direct Costs of Rental Operations | 31,020,217 | 26,674,183 | 23,932,654 |
| Cost of Sales | 42,549,770 | 20,531,687 | 10,734,775 |
| Total Costs | 73,569,987 | 47,205,870 | 34,667,429 |
| Gross Margin | 61,406,254 | 41,799,168 | 36,605,382 |
| Selling and Administrative | 15,956,523 | 13,147,394 | 10,459,258 |
| Income from Operations | 45,449,731 | 28,651,774 | 26,146,124 |
| Interest | 4,070,284 | 2,886,609 | 2,830,863 |
| Income before Provision for Income Taxes | 41,379,447 | 25,765,165 | 23,315,261 |
| Provision for Income Taxes | 16,323,292 | 9,885,275 | 9,375,212 |
| Income before Minority Interest | 25,056,155 | 15,879,890 | 13,940,049 |
| Minority Interest in Income of Subsidiary | 1,011,185 | 358,278 | 96,904 |
| Net Income | $24,044,970 | $15,521,612 | $13,843,145 |
| Earnings Per Share: | | | |
| Basic | $ 1.60 | $ 1.03 | $ 0.87 |
| Diluted | $ 1.58 | $ 1.01 | $ 0.86 |
| Shares Used in Per Share Calculation: | | | |
| Basic | 14,982,090 | 15,102,388 | 15,948,724 |
| Diluted | 15,181,305 | 15,305,802 | 16,168,494 |

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

MCGRATH RENTCORP

CONSOLIDATED BALANCE SHEETS

| | DECEMBER 31, 1997 | DECEMBER 31, 1996 |
|---|---|---|
| ASSETS | | |
| Cash | $ 537,875 | $ 686,333 |
| Accounts Receivable, less allowance for doubtful accounts of $650,000 in 1997 and $605,000 in 1996 | 21,794,028 | 19,919,954 |
| Rental Equipment, at cost: | | |
| Relocatable Modular Offices | 196,132,895 | 158,376,950 |
| Electronic Test Instruments | 50,350,777 | 43,335,413 |
| | 246,483,672 | 201,712,363 |
| Less Accumulated Depreciation | (72,398,374) | (64,419,888) |
| Rental Equipment, net | 174,085,298 | 137,292,475 |
| Land, at cost | 20,495,975 | 20,167,647 |
| Buildings, Land Improvements, Equipment and Furniture, at cost, less accumulated depreciation of $3,177,213 in 1997 and $3,376,803 in 1996 | 28,921,513 | 19,572,015 |
| Prepaid Expenses and Other Assets | 6,557,534 | 2,396,935 |
| Total Assets | $252,392,223 | $200,035,359 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities: | | |
| Notes Payable | $ 82,000,000 | $ 53,850,000 |
| Accounts Payable and Accrued Liabilities | 27,047,173 | 14,768,670 |
| Deferred Income | 6,928,532 | 5,226,803 |
| Minority Interest in Subsidiary | 1,523,058 | 511,873 |
| Deferred Income Taxes | 36,247,956 | 36,869,734 |
| Total Liabilities | 153,746,719 | 111,227,080 |
| Shareholders' Equity: | | |
| Common Stock, no par value -- Authorized -- 40,000,000 shares Outstanding -- 14,521,790 shares in 1997 and 14,820,418 shares in 1996 | 7,756,054 | 7,161,168 |
| Retained Earnings | 90,889,450 | 81,647,111 |
| Total Shareholders' Equity | 98,645,504 | 88,808,279 |
| Total Liabilities and Shareholders' Equity | $252,392,223 | $200,035,359 |

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

MCGRATH RENTCORP

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| | COMMON STOCK SHARES | COMMON STOCK AMOUNT | RETAINED EARNINGS | TOTAL SHAREHOLDERS' EQUITY |
|---|---|---|---|---|
| BALANCE AT DECEMBER 31, 1994 | 16,317,374 | $15,999,633 | $ 67,839,855 | $ 83,839,488 |
| Net Income | -- | -- | 13,843,145 | 13,843,145 |
| Repurchase of Common Stock | (872,132) | (7,374,279) | -- | (7,374,279) |
| Common Stock Issued or Reserved Under Long-Term Stock Bonus Plan | 13,572 | 221,609 | -- | 221,609 |
| Repurchase of Common Stock in Connection with the Exercise of Stock Options | (38,626) | (336,941) | -- | (336,941) |
| Exercise of Stock Options | 119,438 | 403,289 | -- | 403,289 |
| Dividends Declared of $0.295 Per Share (Note 7) | -- | -- | (4,703,165) | (4,703,165) |
| BALANCE AT DECEMBER 31, 1995 | 15,539,626 | 8,913,311 | 76,979,835 | 85,893,146 |
| Net Income | -- | -- | 15,521,612 | 15,521,612 |
| Repurchase of Common Stock | (841,100) | (2,110,889) | (6,667,886) | (8,778,775) |
| Common Stock Issued or Reserved Under Long-Term Stock Bonus Plan | 21,820 | 197,739 | -- | 197,739 |
| Repurchase of Common Stock in Connection with the Exercise of Stock Options | (28,422) | (298,489) | -- | (298,489) |
| Exercise of Stock Options | 128,494 | 459,496 | -- | 459,496 |
| Dividends Declared of $0.28 Per Share | -- | -- | (4,186,450) | (4,186,450) |
| BALANCE AT DECEMBER 31, 1996 | 14,820,418 | 7,161,168 | 81,647,111 | 88,808,279 |
| Net Income | -- | -- | 24,044,970 | 24,044,970 |
| Repurchase of Common Stock | (502,408) | (507,080) | (10,037,500) | (10,544,580) |
| Common Stock Issued or Reserved Under Long-Term Stock Bonus Plan | 28,000 | 496,462 | -- | 496,462 |
| Exercise of Stock Options | 175,780 | 605,504 | -- | 605,504 |
| Dividends Declared of $0.32 Per Share | -- | -- | (4,765,131) | (4,765,131) |
| BALANCE AT DECEMBER 31, 1997 | 14,521,790 | $ 7,756,054 | $ 90,889,450 | $ 98,645,504 |

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

MCGRATH RENTCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | YEAR ENDED DECEMBER 31, | | |
| --- | --- | --- | --- |
| | 1997 | 1996 | 1995 |
| Cash Flows from Operating Activities: | | | |
| Net Income | $ 24,044,970 | $ 15,521,612 | $ 13,843,145 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | | |
| Depreciation and Amortization | 15,771,155 | 13,482,869 | 12,518,104 |
| Gain on Sale of Rental Equipment | (6,621,511) | (4,815,533) | (3,281,144) |
| Proceeds from Sale of Rental Equipment | 17,747,520 | 12,599,250 | 8,630,079 |
| Change In: | | | |
| Accounts Receivable | (1,874,074) | (6,718,758) | (538,983) |
| Prepaid Expenses and Other Assets | (4,160,599) | (499,235) | 206,213 |
| Accounts Payable and Accrued Liabilities | 13,165,759 | 3,476,665 | 1,308,248 |
| Deferred Income | 1,701,729 | (740,260) | (1,280,584) |
| Deferred Income Taxes | (621,778) | 2,381,039 | 1,206,414 |
| Net Cash Provided by Operating Activities | 59,153,171 | 34,687,649 | 32,611,492 |
| Cash Flow from Investing Activities: | | | |
| Purchase of Rental Equipment | (62,277,083) | (29,924,430) | (17,251,729) |
| Purchase of Land | (328,328) | (678,347) | (4,750) |
| Purchase of Buildings, Land Improvements, Equipment and Furniture | (10,265,940) | (7,687,857) | (6,339,843) |
| Net Cash Used in Investing Activities | (72,871,351) | (38,290,634) | (23,596,322) |
| Cash Flow from Financing Activities: | | | |
| Net Borrowings Under Lines of Credit | 28,150,000 | 16,770,000 | 1,130,000 |
| Net Proceeds from the Exercise of Stock Options | 605,504 | 161,007 | 66,348 |
| Repurchase of Common Stock | (10,544,580) | (8,778,775) | (7,374,279) |
| Payment of Dividends | (4,641,202) | (4,083,989) | (3,767,812) |
| Net Cash Provided (Used) by Financing Activities | 13,569,722 | 4,068,243 | (9,945,743) |
| Net Increase (Decrease) in Cash | (148,458) | 465,258 | (930,573) |
| Cash Balance, Beginning of Period | 686,333 | 221,075 | 1,151,648 |
| Cash Balance, End of Period | $ 537,875 | $ 686,333 | $ 221,075 |
| Interest Paid During the Period | $ 4,010,407 | $ 2,832,537 | $ 2,835,280 |
| Income Taxes Paid During the Period | $ 16,945,070 | $ 7,539,570 | $ 7,668,956 |
| Dividends Declared but not yet Paid | $ 1,161,743 | $ 1,037,814 | $ 935,353 |

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

MCGRATH RENTCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND BUSINESS

McGrath RentCorp and its majority owned subsidiary, Enviroplex, Inc. ("Enviroplex"), collectively referred to herein as the "Company", manufactures, rents and sells relocatable modular offices and rents and sells electronic test and measurement instruments with related accessories primarily in California and Texas.

McGrath RentCorp is a California corporation organized in 1979. Under the trade name "Mobile Modular Management Corporation", the Company rents and sells modular equipment and related accessories from two branch offices located in California and one located in Texas. The Company purchases the modulars from various manufacturers who build them to the Company's design specifications. Although Mobile Modular Management Corporation's primary emphasis is on rentals, sales of modulars occur routinely and can fluctuate quarter to quarter and from year to year depending on customer demands and requirements.

The Company conducts electronics operations under the corporate name ("McGrath RentCorp") from its northern California modular branch office, which includes the corporate offices. Engineers, scientists and technicians use these instruments in evaluating the performance of their own electrical and electronic equipment, developing products, controlling manufacturing processes and in field service applications. These instruments are rented primarily to electronics, industrial, research and aerospace companies. The majority of MGRC's rental inventory consists of instruments manufactured by Hewlett-Packard and Tektronix. The Company also conducts electronics operations specializing in telecommunication test equipment under the trade name "RenTelco" from its branch office in Richardson, Texas.

Enviroplex is a California corporation organized in 1991. Since its inception, McGrath RentCorp has financed Enviroplex's operations and assisted in a variety of corporate functions. In 1995, McGrath RentCorp converted a $300,000 note receivable into a 73.2% ownership of Enviroplex. Enviroplex manufactures portable classrooms built to the requirements of the California Division of the State Architect ("DSA") and sells directly to school districts. Enviroplex conducts its sales and manufacturing operations from one facility located in Stockton, California. Enviroplex sales revenues were $21,286,929, $10,205,870 and $4,774,676 for 1997, 1996 and 1995, respectively.

The rental and sale of modulars to school districts for use as portable classrooms, restroom buildings and administrative offices for kindergarten through grade twelve (K-12) are a significant portion of the Company's revenues. School business comprised approximately 52%, 37% and 27% of the Company's consolidated rental and sales revenues for 1997, 1996 and 1995, respectively. The increases in the Company's sales revenues in both 1997 and 1996 can be attributed to the Class Size Reduction Program implemented by the state of California in 1996.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of McGrath RentCorp and Enviroplex. All significant intercompany accounts and transactions are eliminated.

REVENUES

Rental revenue is recognized under the "operating method" of accounting for the majority of leases. Revenue is recognized on a straight-line basis in those cases where equipment is leased with uneven payment terms. Rental billings for more than one month are recorded as deferred income and recognized as rental revenue when earned.

Rental related services revenue is primarily associated with relocatable modular office leases and consists of billings to customers for delivery, installation, modifications, skirting, additional site related work, and return delivery and dismantle. Revenue related to these services is recognized in the period the services are performed and accepted.

Sales revenue is recognized upon delivery of the equipment to the customer. Certain leases meeting the requirements of Statement of Financial Accounting Standards ("SFAS") No. 13, "Accounting for Leases", are accounted for as sales type leases. For these leases, sales revenue and the related accounts receivable are recognized upon execution of the leases and unearned interest is recognized over the lease term on a basis which results in a constant rate of return on the unrecovered lease investment (see Note 4).

DEPRECIATION AND MAINTENANCE

Rental equipment, buildings, land improvements, equipment and furniture are depreciated on a straight-line basis for financial reporting purposes and on an accelerated basis for income tax purposes. The costs of major refurbishment of relocatable modular offices are capitalized to the extent the refurbishment significantly improves the quality and adds value to the equipment. Land improvements consist of development costs incurred to build storage and maintenance facilities at each of the relocatable modular branch offices. The following estimated useful lives and residual values are used for financial reporting purposes:

| | |
|---|---|
| Rental equipment: | |
| Relocatable modular offices | 7 to 18 years, 0% to 18% residual value |
| Electronic test instruments | 5 to 8 years, no residual value |
| Buildings, land improvements, equipment and furniture | 5 to 50 years, no residual value |

Maintenance and repairs are expensed as incurred.

OTHER DIRECT COSTS OF RENTAL OPERATIONS

Other direct costs of rental operations primarily relate to costs associated with relocatable modular offices and include equipment supplies and repairs, direct labor, property and liability insurance, property taxes, and business and license fees.

WARRANTY SERVICE COSTS

Sales of new relocatable modular offices, electronic test equipment and related accessories not manufactured by the Company are typically covered by warranties provided by the manufacturer of the products sold. The Company provides limited 90-day warranties for certain sales of used rental equipment and a one year warranty on equipment manufactured by Enviroplex. Although the Company's policy is to provide reserves for warranties when required for specific circumstances, the Company has not found it necessary to establish such reserves to date.

INCOME TAXES

Provision has been made for deferred income taxes based upon the amount of taxes payable in future years, after considering changes in tax rates and other statutory provisions that will be in effect in those years (see Note 6).

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company believes that the carrying amounts of its financial instruments (cash and notes payable) approximate fair value.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions in determining reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during each period presented. Actual results could differ from those estimates.

EARNINGS PER SHARE

In March 1997, the Financial Accounting Standards Board issued SFAS No. 128, "Earnings Per Share", the effects of which were applied retroactively to January 1, 1993. SFAS No. 128 replaces primary and fully diluted EPS with basic and diluted EPS and modifies existing guidance for computing diluted EPS. Under the new standard, basic EPS is computed as net income divided by the weighted average number of shares of common stock outstanding for the reported period, excluding the dilutive effects of stock options and other potentially dilutive securities. Diluted EPS is computed as net income divided by the weighted average number of shares outstanding of common stock and common stock equivalents for the reported period. Common stock equivalents result from dilutive stock options computed using the treasury stock method with the average share price for the reported period.

RECENT ACCOUNTING PRONOUNCEMENT -- SEGMENT REPORTING

In 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information" which introduces a new model for segment reporting, called the "management approach". The management approach is based on the manner in which management organizes segments within a company for making operating decisions and assessing performance. The management approach replaces the notion of industry and geographic segments. The Company will adopt SFAS 131 in 1998. The Company believes adoption of SFAS 131 will not significantly affect the Company's financial position or results of operations, however, additional financial statement disclosures may be required.

RECLASSIFICATIONS

Certain 1996 and 1995 balances have been reclassified to conform to classifications used during the current year.

NOTE 3. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of trade accounts receivable. The Company sells primarily on 30-day terms, individually performs credit evaluation procedures on its customers on each transaction and will require security deposits or personal guarantees from its customers when a significant credit risk is identified. Historically, the Company has not incurred any significant credit related losses, however, an allowance for potential credit losses is maintained. Typically, most customers are established companies or are publicly funded entities located in California or Texas. Although no one customer accounts for more than 10% of the Company's consolidated revenues, credit risk exists in trade accounts receivable primarily due to the business transacted with the California public school districts (K-12) which represents a significant portion of the Company's revenues (see Note 1). The lack of fiscal funding or significant reduction of funding from the State of California to the public schools could have a material adverse effect on the Company.

NOTE 4. SALES TYPE LEASE RECEIVABLES

The Company has entered into several sales type leases. The minimum lease payments receivable and the net investment included in accounts receivable for such leases are as follows:

| | DECEMBER 31, 1997 | DECEMBER 31, 1996 |
|---|---|---|
| Gross minimum lease payments receivable | $ 5,339,301 | $4,457,079 |
| Less -- unearned interest | (1,012,045) | (899,531) |
| Net investment in sales type lease receivables | $ 4,327,256 | $3,557,548 |

As of December 31, 1997, the future minimum lease payments to be received in 1998 and thereafter are as follows:

| | |
|---|---|
| Year Ended December 31, 1998 | $3,202,641 |
| 1999 | 1,240,221 |
| 2000 | 523,747 |
| 2001 | 254,597 |
| 2002 | 116,742 |
| 2003 and thereafter | 1,353 |
| Total minimum future lease payments | $5,339,301 |

NOTE 5. NOTES PAYABLE

The Company maintains an unsecured line of credit agreement (the "Agreement") with its banks which expires on June 30, 1999 and permits it to borrow up to $90,000,000 of which $72,000,000 was outstanding as of December 31, 1997. The Agreement requires the Company to pay interest at prime or, at the Company's election, other rate options available under the Agreement. In addition, the Company pays a commitment fee on the daily average unused portion of the available line. Among other restrictions, the Agreement requires (i) the Company to maintain shareholders' equity of not less than $77,800,000 plus 50% of all net income generated subsequent to June 30, 1997 plus 90% of any new stock issuance proceeds (restricted equity at December 31, 1997 is $84,322,000), (ii) a debt-to-equity ratio (excluding deferred income taxes) of not more than 3 to 1, (iii) interest coverage (income from operations compared to interest expense) of not less than 2 to 1 and (iv) debt service coverage (earnings before interest, taxes, depreciation and amortization compared to the following year's pro forma debt service) of not less than 1.15 to 1. If the Company does not amend or renegotiate the present Agreement for an additional time period prior to its expiration date, the principal amount outstanding at that time will be converted to a two-year term loan with principal due and payable in eight (8) consecutive quarterly installments.

In addition to the $90,000,000 unsecured line of credit, the Company has a $3,000,000 committed line of credit facility (at prime rate) related to its cash management services and has $10,000,000 of uncommitted optional advance facilities (quoted bank rate at time of borrowing) of which $10,000,000 was outstanding as of December 31, 1997. These additional facilities will expire on June 30, 1998.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following information relates to the lines of credit for each of the following periods:

| | YEAR ENDED DECEMBER 31, 1997 | YEAR ENDED DECEMBER 31, 1996 |
|---|---|---|
| Maximum amount outstanding | $82,000,000 | $53,850,000 |
| Average amount outstanding | $60,601,000 | $41,881,000 |
| Weighted average interest rate | 6.50% | 6.58% |
| Effective interest rate at end of period | 6.70% | 6.57% |
| Prime interest rate at end of period | 8.50% | 8.25% |

NOTE 6. INCOME TAXES

The provision (benefit) for income taxes is comprised of the following:

| | CURRENT | DEFERRED | TOTAL |
|---|---|---|---|
| Year Ended December 31, | | | |
| 1997: | | | |
| Federal | $14,075,531 | $ (809,003) | $13,266,528 |
| State | 2,869,539 | 187,225 | 3,056,764 |
| | $16,945,070 | $ (621,778) | $16,323,292 |
| 1996: | | | |
| Federal | $ 6,031,974 | $2,218,606 | $ 8,250,580 |
| State | 1,472,262 | 162,433 | 1,634,695 |
| | $ 7,504,236 | $2,381,039 | $ 9,885,275 |
| 1995: | | | |
| Federal | $ 6,785,118 | $1,177,522 | $ 7,962,640 |
| State | 1,383,680 | 28,892 | 1,412,572 |
| | $ 8,168,798 | $1,206,414 | $ 9,375,212 |

The reconciliation of the federal statutory tax rate to the Company's effective tax rate is as follows:

| | YEAR ENDED DECEMBER 31, 1997 | 1996 | 1995 |
|---|---|---|---|
| Federal statutory rate | 35.00% | 35.00% | 35.00% |
| State taxes, net of federal benefit | 4.80 | 4.12 | 3.94 |
| Other | (0.35) | (0.75) | 1.27 |
| | 39.45% | 38.37% | 40.21% |

The following table shows the tax effect of the Company's cumulative temporary differences included in net deferred income taxes on the Company's Balance Sheets:

| | YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | 1997 | 1996 |
| Excess of tax over book depreciation | $44,858,854 | $41,338,486 |
| State income taxes | (3,094,870) | (2,617,118) |
| Accrued liabilities not currently deductible | (1,188,909) | (976,089) |
| Revenue deferred for financial reporting purposes | (1,733,285) | (1,813,099) |
| Other, net | (2,593,834) | 937,554 |
| | $36,247,956 | $36,869,734 |

NOTE 7. COMMON STOCK AND STOCK OPTIONS

In March 1997, the Company's Board of Directors approved a 2-for-1 stock split. The financial statements and notes have been adjusted retroactively to reflect the stock split.

In 1985, the Company established an Employee Stock Ownership Plan, as amended. Under the terms of the plan, the Company makes annual contributions in the form of cash or common stock of the Company to a trust for the benefit of eligible employees. The amount of the contribution is determined annually by the Board of Directors. A contribution of $750,000 was approved for 1997, $650,000 in 1996 and $550,000 in 1995.

The Company adopted a 1987 Incentive Stock Option Plan (the "1987 Plan"), effective December 14, 1987, under which options to purchase common stock may be granted to officers and key employees of the Company. The plan provides for the award of options at a price not less than the fair market value of the stock as determined by the Board of Directors on the date the options are granted. Under the 1987 Plan, options have been granted with an exercise price of $3.06, $6.94 and $10.75 per share. The options become exercisable over the term of the related option agreements. Option activity and options exercisable including weighted average exercise price for the three years ended December 31, 1997 were as follows:

| | YEAR ENDED DECEMBER 31, | | | | | |
|---|---|---|---|---|---|---|
| | 1997 | | 1996 | | 1995 | |
| | SHARES | WEIGHTED AVERAGE EXERCISE PRICE | SHARES | WEIGHTED AVERAGE EXERCISE PRICE | SHARES | WEIGHTED AVERAGE EXERCISE PRICE |
| Options outstanding at January 1, | 540,452 | 6.90 | 512,846 | 4.87 | 644,584 | 4.61 |
| Options granted during the year | -- | -- | 160,000 | 10.75 | -- | -- |
| Options exercised during the year | (175,780) | 3.44 | (128,494) | 3.58 | (119,438) | 3.38 |
| Options terminated during the year | -- | -- | (3,900) | 6.94 | (12,300) | 5.94 |
| Options outstanding at December 31, | 364,672 | 8.57 | 540,452 | 6.90 | 512,846 | 4.87 |
| Options exercisable at December 31, | 153,362 | 7.45 | 278,422 | 4.79 | 326,656 | 4.33 |

The weighted average remaining contractual life of the 364,672 options outstanding at December 31, 1997 is 5.8 years. The 1987 Plan expired in December 1997 and no further options can be issued under this plan.

The Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation" in 1996. The effect of SFAS No. 123 for the years presented in the financial statements is not significant.

In 1991, the Board of Directors adopted a Long-Term Stock Bonus Plan (the "LTB Plan") under which 400,000 shares of common stock are reserved for grant to officers and key employees. The stock bonuses granted under the LTB Plan are evidenced by written Stock Bonus Agreements covering specified performance periods. The LTB Plan provides for the grant of stock bonuses upon achievement of certain levels of return on equity during a specified period. Stock bonuses earned under the LTB Plan vest over 5 years from the grant date contingent on the employee's continued employment with the Company. As of December 31, 1997, 138,922 shares of common stock have been granted, of which 42,522 shares of common stock are vested. Future grants of 59,637 shares of common stock are authorized by the Board of Directors to be issued under the LTB Plan in the event the Company reaches the highest level of achievement. Compensation expense for 1997, 1996 and 1995 under these plans was $496,462, $197,739 and $76,318, respectively, and is based on a combination of the anticipated shares to be granted, the amount of vested shares previously issued and fluctuations in market price of the Company's common stock.

The Board of Directors has authorized the repurchase of shares of the Company's outstanding common stock. These purchases are to be made in the over-the-counter market and/or through large block transactions at such repurchase price as the officers shall deem appropriate and desirable on behalf of the Company. All shares repurchased by the Company are to be canceled and returned to the status of authorized but unissued shares of common stock. In 1995, the Company repurchased 872,132 shares of common stock for an aggregate repurchase price of $7,374,279 or an average price of $8.46 per share. In 1996, the Company repurchased 841,100 shares of common stock for an aggregate repurchase price of $8,778,775 or an average price of $10.44 per share. In 1997, the Company repurchased 502,408 shares of common stock for an aggregate repurchase price of $10,544,580 or an average price of $20.99 per share. As of December 31, 1997, 497,592 shares remain authorized for repurchase (see Note 8 below).

In January 1995, the Board of Directors declared a quarterly dividend on its common stock of $0.055 per share related to fourth quarter 1994. If the fourth quarter dividend for 1994 had been declared in December 1994, the cumulative dividends for 1995 would have been $0.24 per share.

NOTE 8. EVENTS SUBSEQUENT TO DATE OF AUDITORS' REPORT (UNAUDITED)

In March 1998, the Company repurchased 439,450 shares of its outstanding common stock for an aggregate purchase price of $8,795,263 (or an average price of $20.01 per share). On March 26, 1998, the Company's Board of Directors authorized the repurchase of up to 1,000,000 shares of its common stock.

MCGRATH RENTCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 9. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly financial information for each of the two years ended December 31, 1997 is summarized below:

| | 1997 | | | | |
|---|---|---|---|---|---|
| | FIRST | SECOND | THIRD | FOURTH | YEAR |
| OPERATIONS DATA | | | | | |
| Total revenues | $ 26,841,510 | $ 33,459,008 | $ 45,352,129 | $ 29,323,594 | $134,976,241 |
| Gross margin | 12,590,974 | 15,084,570 | 19,536,128 | 14,194,582 | 61,406,254 |
| Income from operations | 9,233,410 | 11,395,769 | 14,573,837 | 10,246,715 | 45,449,731 |
| Income before income taxes | 8,360,525 | 10,406,323 | 13,531,121 | 9,081,478 | 41,379,447 |
| Net income | 4,919,488 | 6,081,647 | 7,702,354 | 5,341,481 | 24,044,970 |
| Earnings per share: | | | | | |
| Basic | $ 0.33 | $ 0.41 | $ 0.51 | $ 0.36 | $ 1.60 |
| Diluted | $ 0.33 | $ 0.40 | $ 0.51 | $ 0.35 | $ 1.58 |
| Dividends declared per share | $ 0.08 | $ 0.08 | $ 0.08 | $ 0.08 | $ 0.32 |
| BALANCE SHEET DATA | | | | | |
| Rental equipment, net | $141,820,991 | $146,343,453 | $158,693,201 | $174,085,298 | $174,085,298 |
| Total assets | 206,220,853 | 222,939,943 | 237,963,403 | 252,392,223 | 252,392,223 |
| Notes payable | 52,000,000 | 65,000,000 | 65,800,000 | 82,000,000 | 82,000,000 |
| Shareholders' equity | 93,005,143 | 97,921,674 | 104,465,276 | 98,645,504 | 98,645,504 |

| | 1996 | | | | |
|---|---|---|---|---|---|
| | FIRST | SECOND | THIRD | FOURTH | YEAR |
| OPERATIONS DATA | | | | | |
| Total revenues | $ 17,705,351 | $ 19,641,379 | $ 25,497,205 | $ 26,161,103 | $ 89,005,038 |
| Gross margin | 8,610,927 | 9,722,720 | 11,604,801 | 11,860,720 | 41,799,168 |
| Income from operations | 5,776,218 | 6,818,578 | 8,085,784 | 7,971,194 | 28,651,774 |
| Income before income taxes | 5,140,944 | 6,136,426 | 7,341,509 | 7,146,286 | 25,765,165 |
| Net income | 3,073,577 | 3,652,090 | 4,463,865 | 4,332,080 | 15,521,612 |
| Earnings per share: | | | | | |
| Basic | $ 0.20 | $ 0.24 | $ 0.30 | $ 0.29 | $ 1.03 |
| Diluted | $ 0.20 | $ 0.24 | $ 0.29 | $ 0.29 | $ 1.01 |
| Dividends declared per share | $ 0.07 | $ 0.07 | $ 0.07 | $ 0.07 | $ 0.28 |
| BALANCE SHEET DATA | | | | | |
| Rental equipment, net | $128,213,564 | $127,801,355 | $130,112,339 | $137,292,475 | $137,292,475 |
| Total assets | 175,557,127 | 179,320,909 | 188,646,762 | 200,035,359 | 200,035,359 |
| Notes payable | 35,855,000 | 42,375,000 | 45,725,000 | 53,850,000 | 53,850,000 |
| Shareholders' equity | 85,934,152 | 84,498,597 | 85,247,366 | 88,808,279 | 88,808,279 |

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated by reference to McGrath RentCorp's definitive Proxy Statement with respect to its Annual Shareholders' Meeting to be held June 5, 1998, which will be filed with the Securities and Exchange Commission by not later than April 30, 1998.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to McGrath RentCorp's definitive Proxy Statement with respect to its Annual Shareholders' Meeting to be held June 5, 1998, which will be filed with the Securities and Exchange Commission by not later than April 30, 1998.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to McGrath RentCorp's definitive Proxy Statement with respect to its Annual Shareholders' Meeting to be held June 5, 1998, which will be filed with the Securities and Exchange Commission by not later than April 30, 1998.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to McGrath RentCorp's definitive Proxy Statement with respect to its Annual Shareholders' Meeting to be held June 5, 1998, which will be filed with the Securities and Exchange Commission by not later than April 30, 1998.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Index of documents filed as part of this report:

1. The following Consolidated Financial Statements of McGrath RentCorp are included in Item 8.


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| Notes to Consolidated Financial Statements.................. | 22 |


2. Financial Statement Schedules. None.

3. Exhibits. See Index of Exhibits on page 32 of this report.

(b) Reports on Form 8-K. None.

Schedules and exhibits required by Article 7 of Regulation S-X other than those listed are omitted because they are not required, are not applicable, or equivalent information has been included in the consolidated financial statements, and notes thereto, or elsewhere herein.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 27, 1998

MCGRATH RENTCORP

by: /s/ ROBERT P. MCGRATH

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Robert P. McGrath
Chairman of the Board
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the dates as indicated.

| NAME | TITLE | DATE |
|---|---|---|
| /s/ ROBERT P. MCGRATH<br>Robert P. McGrath | Chairman of the Board and Chief Executive Officer | March 27, 1998 |
| /s/ DELIGHT SAXTON<br>Delight Saxton | Senior Vice President, Chief Financial Officer (Chief Accounting Officer), Secretary and Director | March 27, 1998 |
| /s/ JOAN MCGRATH<br>Joan McGrath | Director | March 27, 1998 |

MCGRATH RENTCORP

INDEX TO EXHIBITS

| NUMBER | DESCRIPTION | METHOD OF FILING |
|---|---|---|
| 3.1 | Articles of Incorporation of McGrath RentCorp | Filed as exhibit 19.1 to the Company's Quarterly Report on Form 10Q for the quarter ending June 30, 1988 (filed August 14, 1988), and incorporated herein by reference. |
| 3.1.1 | Amendment to Articles of Incorporation of McGrath RentCorp | Filed as exhibit 3.1 to the Company's Registration Statement on Form S-1 (filed March 28, 1991 Registration No. 33-39633), and incorporated herein by reference. |
| 3.1.2 | Amendment to Articles of Incorporation of McGrath RentCorp | Filed herewith. |
| 3.2 | Amended and Restated By-Laws of McGrath RentCorp | Filed as exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990 (filed March 28, 1991), incorporated herein by reference. |
| 3.2.1 | Amendment of By-Laws of McGrath RentCorp | Filed herewith. |
| 4.1 | Amended and Restated Credit Agreement | Filed as exhibit 4.1 to the Company's Quarterly Report on Form 10Q for the quarter ending June 30, 1997 (filed August 1, 1997), and incorporated herein by reference. |
| 4.1.1 | First Amendment to the Restated Credit Agreement | Filed herewith. |
| 4.1.2 | Second Amendment to the Restated Credit Agreement | Filed herewith. |
| 4.2 | $3,000,000 Committed Credit Facility | Filed as exhibit 4.1 to the Company's Quarterly Report on Form 10Q for the quarter ending September 30, 1997 (filed November 11, 1997), and incorporated herein by reference. |
| 4.3 | $5,000,000 Optional Credit Facility with Union Bank of California, N.A. | Filed as exhibit 4.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (filed March 31, 1997), and incorporated herein by reference. |
| 4.3.1 | First Extension to the $5,000,000 Optional Credit Facility with Union Bank of California, N.A. | Filed herewith. |
| 4.3.2 | Second Extension to the $5,000,000 Optional Credit Facility with Union Bank of California, N.A. | Filed as exhibit 4.2 to the Company's Annual Report on Form 10Q for the quarter ending June 30, 1997 (filed August 1, 1997), and incorporated herein by reference. |
| 4.3.3 | Third Extension to the $5,000,000 Optional Credit Facility with Union Bank of California, N.A. | Filed as exhibit 4.2 to the Company's Quarterly Report on Form 10Q for the quarter ending September 30, 1997 (filed November 11, 1997), and incorporated herein by reference. |

| NUMBER | DESCRIPTION | METHOD OF FILING |
|---|---|---|
| 4.4 | $5,000,000 Optional Credit Facility with Fleet Bank, N.A. | Filed as exhibit 4.3 to the Company's Quarterly Report on Form 10Q for the quarter ending September 30, 1997 (filed November 11,1997), and incorporated herein by reference. |
| 10.1 | The McGrath RentCorp 1987 Incentive Stock Option Plan | Filed as exhibit 19.3 to the Company's Quarterly Report on Form 10Q for the quarter ending June 30, 1988 (filed August 14, 1988), and incorporated herein by reference. |
| 10.1.1 | Exemplar of the Form of the Incentive Stock Option Agreement | Filed as exhibit 19.3 to the Company's Quarterly Report on Form 10Q for the quarter ending June 30, 1988 (filed August 14, 1988), and incorporated herein by reference. |
| 10.2 | Exemplar of the Form of the Directors, Officers and Other Agents Indemnification Agreements | Filed as exhibit 19.5 to the Company's Quarterly Report on Form 10Q for the quarter ending June 30, 1988 (filed August 14, 1988), and incorporated herein by reference. |
| 10.3 | Long-Term Stock Bonus Plan together with Exemplar Long-Term Stock Bonus Agreement | Filed as exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990 (filed March 28, 1991), and incorporated herein by reference. |
| 27 | Financial Data Schedule | Filed electronically. |

The exhibits listed above may be obtained from McGrath RentCorp, 5700 Las Positas Road, Livermore, California 94550-7800 upon written request. Each request should specify the name and address of the requesting person and the title of the exhibit or exhibits desired. A reasonable fee for copying any exhibit requested plus postage will be charged by McGrath RentCorp prior to furnishing such exhibit(s).

See http://www.sec.gov/edaux/formlynx.htm for the Company's most recent filings.

Exhibit 3.1.2

MCGRATH RENTCORP

CERTIFICATE OF AMENDMENT

OF

ARTICLES OF INCORPORATION

Dennis C. Kakures and Delight Saxton certify that:

1. They are the President and the Secretary, respectively, of McGrath RentCorp, a California corporation.

2. Article Four of the Articles of Incorporation of this corporation is amended to read in its entirety as follows:

> "The corporation is authorized to issue only one class of shares, which shall be designated "Common Stock," and the total number of shares which this corporation is authorized to issue is forty million (40,000,000). Upon amendment of this Article to read as herein set forth, each outstanding share of Common Stock is split up and converted into two (2) shares of Common Stock."

3. The foregoing Amendment of Articles of Incorporation has been duly approved by the Board of Directors.

4. The corporation has only class of shares outstanding, and in accordance with Corporations Code Section 902(c), the approval of the shareholders is not required for the foregoing Amendment of Articles of Incorporation.

We declare under penalty of perjury under the laws of the State of California that the matters set forth in this Certificate are true and correct of our own knowledge.

Dated: April 1, 1997

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Dennis C. Kakures, President

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Delight Saxton, Secretary

EXHIBIT 3.2.1

# AMENDMENT OF BYLAWS

"3.2 The number of directors of the corporation shall be not less than four (4) nor more than seven (7). The exact number of directors shall be five (5) until changed, within the limits specified above, by an amendment to this Section 3.2 duly adopted by either the Board of Directors or the shareholders. The indefinite number of directors may be changed, or a definite number fixed without provision for an indefinite number, by an amendment to this Section 3.2 duly adopted by the vote or written consent of a majority of the outstanding shares entitled to vote."

EXHIBIT 4.1.1

# FIRST AMENDMENT TO CREDIT AGREEMENT

This First Amendment to Credit Agreement ("Amendment") dates as of the 31st day of December, 1997, is entered into by and among McGRATH RENTCORP, a California corporation, as "Borrower," the banks listed on the signature pages hereof (individually a "Bank" and collectively "Banks"), and UNION BANK OF CALIFORNIA, NATIONAL ASSOCIATION, as agent for Banks (in such capacity, "Agent").

## RECITALS

A. Pursuant to that Credit Agreement dated as of July 10, 1997, as amended from time to time ("Agreement"), among Borrower, the Banks and Agent, credit facilities have been made available to Borrower in a maximum aggregate principal amount of $70,000,000, consisting of a Basic Commitment Amount of $40,000,000 and a Reserve Commitment Amount of $30,000,000.

B. Borrower has requested that the Agent and the Banks amend the Agreement to increase the Basic Commitment Amount to $50,000,000, and the Reserve Commitment Amount to $40,000,000, and to make such other amendments as are set forth below. The Agent and the Bank's are willing to effect such amendments upon the terms and subject to the conditions set forth below.

NOW, THEREFORE, the parties hereto agree as follows:

1. Unless otherwise defined herein, capitalized terms used in this Amendment shall have the respective meanings given to those terms in the Agreement.

2. The definitions of "Basic Commitment Amount" and "Reserve Commitment Amount", in Article One of the Agreement are hereby deleted and replaced with the respective definitions thereof set forth below:

"Basic Commitment Amount" means the amount of Fifty Million Dollars ($50,000,000)."

"Reserve Commitment Amount" means the amount of Forty Million Dollars ($40,000,000)."

3. The definition of "Pro Rata Share", in Article One of the Agreement is hereby deleted and replaced with the definition thereof set forth below:

"Pro Rata Share" means, with respect to each Bank, the percentage set forth next to that Bank's name as follows:

| Bank | Pro Rata Share | Commitment |
|---|---|---|
| Union Bank of California, N.A. | 34% | $30,600,000 |
| Bank of America, NT&SA | 33% | $29,700,000 |
| Fleet Bank, N.A. | 33% | $29,700,000" |

4. The Commitment amounts, the Pro Rata Share percentages, and the addresses for notices and other communications, of each of the Banks, as set forth on the signature pages of the Agreement are hereby deleted and replaced with the respective Commitment amounts, Pro Rata Share percentages, and addresses for notices and other communications, of each of the Banks set forth on the signature pages hereof.

5. Borrower hereby represents and warrants to the Agent and the Banks as follows:

a. Each of the representations and warranties set forth in Article 6 of the Agreement is true and correct on the date hereof and, after giving effect to the amendments effected hereby on the Effective Date, will be true and correct on the Effective Date; and

b. No Default or Event of Default has occurred and is continuing or exists under the Agreement on the date hereof and, after giving effect to the amendments effected hereby on the Effective Date, No Default or Event of Default will have occurred and be continuing or will exist under the Agreement on the Effective Date.

6. The amendments set forth in Sections 2, 3 and 4 above shall become effective on December 31, 1997 (the "Effective Date"), subject to receipt by the Agent of each of the following on or prior to the Effective Date:

a. Counterparts of this Amendment, duly executed by Borrower, the Agent and each of the Banks;

b. New Revolving Notes, appropriately completed and duly executed by Borrower, to the extent require by amendments to the Basic Commitment Amount; and

c. A certificate of the secretary of Borrower certifying: (i) the corporate action taken by Borrower to authorize the execution, delivery and performance of this Amendment, and (ii) the incumbency of the officer(s) of Borrower authorized to execute this Amendment on behalf of Borrower.

7. On and after the Effective Date, all references in the Agreement or other Loan Documents to the Agreement shall mean the Agreement as amended hereby, and the term "Loan Documents" shall include this Amendment. On and after the Effective Date, all references in the Agreement or other Loan Documents to the Revolving Note(s) shall mean the Revolving Note(s) executed in connection with this Amendment. Except as specifically provided herein, all terms and conditions of the Agreement remain in full force and effect, without waiver or modification, and this Amendment and the Agreement shall be read together as one document.

8. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute on and the same agreement. This Agreement shall be governed by, and construed in accordance with, the laws of the state of California.

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed by as of the date and year first written above.

BORROWER:

McGRATH RENTCORP

By: ___________________________

Its: __________________________

Notice Address:

5720 Las Positas
Livermore, California 94550
Attention: Ms. Delight Saxton

BANKS:

UNION BANK OF CALIFORNIA,
NATIONAL ASSOCIATION,
individually and as Agent

By: ___________________________

Its: __________________________

Notice Address:

350 California Street
San Francisco, CA 94104
Attention: Mr. Robert Vernagallo
Vice President
Fax No: (415) 705 7566

Commitment: $30,000,000
Pro Rata Shre: 34%

FLEET BANK, N.A.

By: ___________________________

Its: __________________________

Notice Address:

1185 Avenue of the Americas, 16th Floor
New York, NY 10036
Attention: Mr. Anthony C. Nocera
Vice President
Fax No: (212) 819 6211

Commitment: $20,700,000
Pro Rata Share: 33%

BANK OF AMERICA NATIONAL
TRUST AND SAVINGS ASSOCIATION

By: ___________________________

Its: __________________________

Notice Address:

300 Lakeside Drive, Suite 250
Oakland, CA 94612
Attention: Mr. Kenneth J. Beck
Vice President
Fax No: (510) 273 5355

Commitment: $29,700,000
Pro Rata Share: 33%

EXHIBIT 4.1.2

# SECOND AMENDMENT TO CREDIT AGREEMENT

THIS SECOND AMENDMENT TO CREDIT AGREEMENT ("Amendment") dated as of 3rd day of March, 1998, is entered into by and among McGRATH RENTCORP, a California corporation, as "Borrower," the banks listed on the signature pages hereof (individually a "Bank" and collectively "Banks"), and UNION BANK OF CALIFORNIA, NATIONAL ASSOCIATION, as agent for Banks (in such capacity, "Agent").

## RECITALS

A. Pursuant to that certain Credit Agreement dated as of July 10, 1997, as amended from time to time ("Agreement"), among Borrower, the Banks and Agent, credit facilities have been made available to Borrower in a maximum aggregate principal amount of $50,000,000, consisting of a Basic Commitment Amount of $40,000,000 and a Reserve Commitment Amount of $40,000,000.

B. Borrower has requested that the Agent and the Banks amend the Agreement as set forth below. The Agent and the Bank's are willing to effect such an amendment upon the terms and subject to the conditions set forth below.

NOW, THEREFORE, the parties hereto agree as follows:

1. Unless otherwise defined herein, capitalized terms used in this Amendment shall have the respective meanings given to those terms in the Agreement.

2. Section 7.12(b) of the Agreement is hereby deleted and replaced with the following:

"(b) at all times a ratio of Liabilities to Tangible Net Worth for Borrower (on a consolidated basis with Affiliates) at all times of not more than three to one (3 to 1);"

3. Borrower hereby represents and warrants to the Agent and the Banks as follows:

   a. Each of the representations and warranties set forth in Article 6 of the Agreement is true and correct on the date hereof and, after giving effect to the amendments effected hereby on the Effective Date, will be true and correct on the Effective Date; and

   b. No Default or Event of Default has occurred and is continuing or exists under the Agreement on the date hereof and, after giving effect to the amendments effected hereby on the Effective Date, No Default or Event of Default will have occurred and be continuing or will exist under the Agreement on the Effective Date.

4. The amendment set forth in Section 2 above shall become effective on March 4, 1998 (the "Effective Date"), subject to receipt by the Agent on or prior to the Effective Date of counterparts of this Amendment, duly executed by Borrower, the Agent and each of the Banks.

5. On and after the Effective Date, all references in the Agreement or other Loan Documents to the Agreement shall mean the Agreement as amended hereby, and the term "Loan Documents" shall include this Amendment. Except as specifically provided herein, all terms and conditions of the Agreement remain in full force and effect, without waiver or modification, and this Amendment and the Agreement shall be read together as one document.

6. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute on and the same agreement. This Agreement shall be governed by, and be construed in accordance with, the laws of the state of California.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by as of the date and year first written above.

BORROWER:

McGRATH RENTCORP

By: ___________________
  Its: ________________

BANKS:

UNION BANK OF CALIFORNIA,
NATIONAL ASSOCIATION,
individually and as Agent

By: ___________________
  Its: ________________

FLEET BANK, N.A.

By: ___________________
  Its: ________________

BANK OF AMERICA NATIONAL
TRUST AND SAVINGS ASSOCIATION

By: ___________________
  Its: ________________

EXHIBIT 4.3.1

UNION BANK OF CALIFORNIA                                    Corporate Banking

Date:  June 27, 1997

Ms. Delight Saxton
Chief Financial Officer and
Vice President of Administration
McGrath RentCorp
2500 Grant Avenue
San Lorenzo, CA 94580

Re: Extension of Maturity Date of Facility Letter and Optional Advance Note

Dear Delight:

This letter is to confirm that Union Bank of California, N.A. ("Bank") has agreed to extend the maturity date of that certain optional advance extension of Credit ("Facility") granted by Bank to McGrath RentCorp, a California corporation ("Borrower") in the maximum principal amount of FIVE MILLION AND NO/100 DOLLARS ($5,000,000) originally made pursuant to the terms and conditions of that certain Facility letter dated October 16, 1996 as amended from time to time, and optional advance promissory note dated October 16, 1996 as amended from time to time (the "Note") (collectively, the "Agreements").

The maturity date of the Facility is hereby extended to July 31, 1997, ("New Maturity Date"). The Agreements shall be deemed modified as of the date of this letter to reflect the New Maturity Date. All other terms and conditions of the Agreements remain in full force and effect, without waiver or modification.

BORROWER ACKNOWLEDGES THAT, AS PROVIDED IN THE AGREEMENTS, THE FACILITY IS NOT A COMMITTEE FACILITY. IN ITS SOLE DISCRETION, FOR ANY REASON OR FOR NO REASON AND WITH OR WITHOUT NOTICE, BANK MAY DECLINE TO MAKE ANY OR ALL REQUESTED ADVANCES UNDER THE FACILITY, MAY DECLINE TO CONTINUE OR FURTHER RENEW THE FACILITY, AND MAY TERMINATE THE FACILITY AT ANY TIME.

Very truly yours,

UNION BANK OF CALIFORNIA, N.A.

By: __________________________
Robert John Vernagallo
Vice President

400 California Street, San Francisco, California 94104

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM McGRATH RENTCORP FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997.

1,000

12-MOS
DEC-31-1997
JAN-01-1997
DEC-31-1997
538
0
22,444
(650)
0
0
299,078
(75,576)
252,392
0
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0
0
7,756
90,889
252,392
134,976
134,976
73,570
73,570
15,956
0
4,070
41,379
16,323
0
0
0
0
24,045
1.60
1.58

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