

**UNITED STATES
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, 2008

Commission file number 0-13292

McGRATH RENTCORP

(Exact name of registrant as specified in its Charter)

California
(State or other jurisdiction
of incorporation or organization)

94-2579843
(I.R.S. Employer
Identification No.)

5700 Las Positas Road, Livermore, CA 94551-7800
(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
Common Stock

Name of each exchange on which registered
NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes

No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes

No

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

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 the 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.

Yes

No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

Aggregate market value of voting stock, held by nonaffiliates of the registrant as of June 30, 2008: \$543,583,491.

As of February 25, 2009, 23,708,618 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 4, 2009 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 82



FORWARD LOOKING STATEMENTS

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

Management cautions that forward-looking statements are subject to risks and uncertainties that could cause our actual results to differ materially from those projected in such forward-looking statements including, without limitation, the following: the effect of the current recession and the credit crisis on our suppliers, our customers, and our results of operations and the Company's ability to access additional capital in the current uncertain capital and credit market; the level of the Company's future rentals and sales, customer demand and cost of raw materials; the Company's ability to retain and recruit key personnel; the impact of the current recession on our debt covenants and the Company's flexibility in running its business and the effect of an event of default on the Company's results of operations; the Company's ability to maintain its competitive strengths and to effectively compete against its competitors; the Company's short-term decisions and long-term strategies for the future and its ability to implement and maintain such decisions and strategies, including its strategies: (i) to focus on rental revenue growth from an increasing base of rental assets, (ii) to actively maintain, repair, redeploy, manage and anticipate the need for various models of rental equipment cost-effectively and to maximize the level of proceeds from the sale of such products, and (iii) to create internal facilities and infrastructure capabilities that can provide prompt and efficient customer service, experienced assistance, rapid delivery and timely maintenance of the Company's equipment; the demand by the educational market (and the K-12 market in particular) for the Company's modular products; the Company's ability to successfully integrate and operate the Adler Tank Rentals business and other future acquisitions and to manage the risks related to those business, including environmental risk; the effect of delays or interruptions in the passage of statewide and local facility bond measures on the Company's operations; the effect of changes in applicable law, and policies relating to the use of temporary buildings on the Company's modular rental and sales revenues, including with respect to class size and building standards; the effects of changes in the level of state funding to public schools and the use of classrooms that meet the Department of Housing requirements; the Company's ability to maintain and upgrade its equipment to comply with changes in applicable law and customer preference; the Company's strategy to effectively implement its expansion into Florida, North Carolina, Georgia, Maryland and Virginia and other new markets in the U.S.; the Company's reliance on its information technology systems; manufacturers' ability to produce products to the Company's specification on a timely basis; the Company's ability to maintain good relationships with school districts, manufacturers, and other suppliers; the effect of interest rate fluctuations; the Company's ability to manage its credit risk and accounts receivable; the timing and amounts of future capital expenditures and the Company's ability to meet its needs for working capital including its ability to negotiate lines of credit; the Company's ability to track technology trends to make good buy-sell decisions with respect to electronic test equipment; the effect of changes to the Company's accounting policies and impact of evolving interpretation and implementation of such policies; the risk of litigation and claims against the Company, including under environmental and health and safety and products liability laws; the impact of a change in the Company's overall effective tax rate as a result of the Company's mix of business levels in various tax jurisdictions in which it does business; the adequacy of the Company's insurance coverage; the impact of a failure by third parties to manufacture our products timely or properly; the level of future warranty costs of modular equipment that we sell; the effect of seasonality on the Company's business; the growth of the Company's business in international markets and the Company's ability to succeed in those markets; and the Company's ability to pass on increases in its costs of rental equipment, including manufacturing costs, operating expenses and interest expense through increases in rental rates and selling prices. Further, our future business, financial condition and results of operations could differ materially from those anticipated by such forward-looking statements and are subject to risks and uncertainties including the risks set forth above and the "Risk Factors" set forth in this Form 10-K. Moreover, neither we assume nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements.

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

ITEM 1. BUSINESS.**General Overview**

McGrath RentCorp is a California corporation organized in 1979 with corporate offices located in Livermore, California. The Company's common stock is traded on the NASDAQ National Global Select Market under the symbol "MGRC". References in this report to the "Company", "we", "us", and "ours" refer to McGrath RentCorp and its subsidiaries, unless the context requires otherwise.

The Company is a diversified business to business rental company with three rental products; relocatable modular buildings, electronic test equipment, and liquid and solid containment tanks and boxes. Although the Company's primary emphasis is on equipment rentals, sales of equipment occur in the normal course of business. The Company is comprised of four business segments: (1) Mobile Modular Management Corporation, its modular building rental division, ("Mobile Modular"); (2) TRS-RenTelco, its electronic test equipment rental division; (3) Adler Tank Rentals, LLC, its wholly-owned subsidiary providing containment solutions for the storage of hazardous and non-hazardous liquids and solids ("Adler Tanks") and (4) Enviroplex, Inc., its wholly-owned subsidiary classroom manufacturing business selling modular buildings used primarily as classrooms in California ("Enviroplex"). In 2008, Mobile Modular, TRS-RenTelco and Enviroplex contributed 67%, 28% and 4% of the Company's income before provision for taxes (the equivalent of "pretax income"), respectively, compared to 71%, 28% and 1% for 2007. Even though managed as a separate business unit, Enviroplex's revenues, pretax income contribution and total assets are not significant relative to the Company's consolidated financial position. Adler Tanks was acquired on December 11, 2008 and its contribution to the Company's pretax income in 2008 was not significant.

Mobile Modular rents and sells modular buildings and accessories to fulfill customers' temporary and permanent space needs in California, Texas, Florida, North Carolina, Georgia and beginning in 2008 in Maryland and Virginia. These modular units are used as classrooms, temporary offices adjacent to existing facilities, sales offices, construction field offices, restroom buildings, healthcare clinics, child care facilities and for a variety of other purposes. Mobile Modular purchases the modulares from various manufacturers who build them to Mobile Modular's design specifications. Mobile Modular currently operates two regional sales and inventory centers in California, one in Texas, one in Florida and regional sales offices serving North Carolina, Georgia, Maryland and Virginia. Although Mobile Modular's primary emphasis is on rentals, sales of modulares routinely occur and fluctuate from period to period depending on customer requirements, budgets and other factors.

The educational market is the largest segment of our modular business. Mobile Modular and Enviroplex provide classroom and specialty space needs serving public and private schools, colleges and universities. Within the educational market, the rental (by Mobile Modular) and sale (by Enviroplex and Mobile Modular) of modulares to public school districts for use as classrooms, restroom buildings and administrative offices for kindergarten through grade twelve (K-12) schools comprised approximately 54%, 53% and 55%, of Mobile Modular's rental and sales revenues for 2008, 2007 and 2006, respectively. Historically, demand in this market has been fueled by an increasing student population, insufficient funding for new school construction, class size reduction programs, modernization of aging school facilities, and the phasing out of portable classrooms compliant with older building codes.

TRS-RenTelco rents and sells electronic test equipment nationally and internationally from its Grapevine, Texas (Dallas Area) and Dollard-des-Ormeaux, Canada (Montreal Area) facilities. The Dallas facility houses the electronic test equipment inventory, sales engineers, calibration laboratories, and operations staff for U.S. and international business. The Montreal facility houses sales engineers and operations staff to serve the Canadian market. As of December 31, 2008, the original cost of electronic test equipment inventory was comprised of 68% general-purpose electronic test equipment, 31% communications electronic test equipment and 1% environmental test equipment. In January 2008, the Company launched online ordering for its electronic test equipment rental business.

Engineers, technicians and scientists utilize general-purpose electronic test equipment in developing products, controlling manufacturing processes, field service applications and evaluating the performance of their own electrical and electronic equipment. These instruments are rented primarily to aerospace, defense, electronics, industrial, research and semiconductor industries. To date, Agilent Technologies and Tektronix, a division of Danaher Corporation, have manufactured the majority of TRS-RenTelco's general-purpose electronic test equipment.

Communications test equipment, including fiber optic test equipment, is utilized by technicians, engineers and installation contractors to evaluate voice, data and multimedia communications networks, to install fiber optic cabling, and in the development and manufacturing of transmission, network and wireless products. These instruments are rented primarily to manufacturers of communications equipment and products, electrical and communications installation contractors, field technicians, and service providers. To date, Agilent has manufactured a significant portion of TRS-RenTelco's communications test equipment, with the remaining acquired from over 50 other manufacturers.

In 2008, the Company began operations in three new areas: (1) the portable storage business under the name Mobile Modular Portable Storage. Mobile Modular Portable Storage offers portable storage units and high security portable office units for rent, lease and purchase in Northern California; (2) the environmental test equipment rental business under TRS-Environmental, offering a wide variety of environmental monitoring, environmental sampling, and field and safety supplies for rent, lease or purchase; and (3) the liquid and solid containment tanks and boxes rental business through the acquisition of Adler Tank Rentals, LLC on December 11, 2008. Adler Tanks operates from branches that serve the Northeast, Mid-Atlantic, Midwest and Texas. These three new initiatives were not significant to the Company's results of operations for the year ended December 31, 2008.

No single customer has accounted for more than 10% of the Company's total revenues generated in any given year. In addition, total foreign country customers and operations accounted for less than 10% of the Company's revenues and long-lived assets in any given year.

History, Strategic Expansion and Acquisitions

Prior to starting the Company, Robert McGrath, the Company's founder and Chairman of the Board, was a founder and served as President of Leasametric from 1969 until it was sold to Trans Union Corporation in 1977, and was involved in all aspects of its electronic test equipment rental business. Mr. McGrath was one of the pioneers of the electronic test equipment rental industry and contributed significantly to the success and direction of Leasametric, which was at the time one of the industry's largest and most respected companies. After the sale, Mr. McGrath continued with Trans Union until he founded the Company in 1979, initially renting relocatable modular offices. At the time that Mr. McGrath left Trans Union, he was subject to a non-compete agreement, which prevented him from engaging in the electronic test equipment rental business until 1984, when the Company went public.

The Company started modular operations in Northern California in 1979, expanded to Southern California in 1980, and by acquisition in 1982, grew the Southern California operations and entered the Texas market. When Mr. McGrath's non-compete expired in 1984, the Company entered the electronic test equipment rental business and in the same year went public. Secondary offerings were completed in 1986 and 1991. Proceeds from these offerings were used to fund organic growth, complete two modular acquisitions in 1986 and, in 1991, acquire a communications test equipment rental company from GE Capital operating as RenTelco. Also in 1991, the Company adopted a strategy to purchase large parcels of land and build regional modular sales and inventory centers for its facilities, and eventually completed two in California and one in Texas.

From 1991 through 2001 the Company's two rental businesses grew organically with the exception of a small modular acquisition in 1997. Mobile Modular focused increasingly on educational rental growth and our electronic test equipment rental business benefited from its specialization in communications test equipment as the telecom industry rapidly expanded. During this time, rental revenues for the modular business grew from \$30.5 million in 1991 to \$63.5 million in 2001 and rental revenues for the electronic test equipment business grew from \$6.4 million in 1991 to \$37.2 million in 2001.

Beginning in the latter half of 2001, the electronic test equipment rental industry experienced a significant downturn in business activity levels resulting from weakness in the telecommunications industry due to overcapacity and a general economic slowdown. Although both general-purpose and communications test equipment sectors were affected, the impact to our communications test equipment business levels was significant. As a result, during the first six months of 2002, TRS-RenTelco recorded non-cash impairment charges of \$24.1 million due to excess communications test equipment rental inventory relative to market demand, reducing net income by \$14.5 million and lowering diluted earning per share by \$0.58 per share. Beginning in late 2003 and continuing into 2004, the general-purpose test equipment markets, and to a lesser extent, communications test equipment markets, showed signs of increasing business activity levels.

In early 2004, the Company leveraged its California classroom rental expertise and strategically expanded organically to Florida, renting modular classroom products. We believe that we have developed good relationships with school districts, manufacturers, and other suppliers while introducing into the Florida market an innovative classroom design, the Campus Maker™. This design is a low profile, steel frame product that allows school districts to install their classrooms in much closer proximity to one another, thereby freeing up valuable playground and activity space and eliminating the need for a separate ramp system on most installations. The Campus Maker™ product has significantly improved aesthetics compared to standard modular classrooms and continues to gain popularity in the marketplace.

In May 2004, the Company entered into an Asset Purchase Agreement to purchase substantially all of the assets of Technology Rentals & Services (“TRS”), a division of CIT Group Inc. in order to facilitate the growth of our electronic test equipment business. Based in Grapevine, Texas (Dallas Area), TRS was similar to the Company’s existing electronic test equipment rental business, RenTelco, and was one of the leading providers of general purpose and communications test equipment for rent or sale in North America. The transaction was completed on June 2, 2004, for cash consideration of \$120.2 million. The Company financed the acquisition from a revolving line of credit facility with its banks and 5.08% senior notes due in 2011. Since June 2, 2004, TRS’ results have been included in the Consolidated Statements of Income, and since that date, the combined electronic test equipment business has operated under the name TRS-RenTelco.

From 2004 onward, the Company continued to focus on its core rental businesses, integrating the acquired TRS operations and establishing and growing Mobile Modular’s Florida operations. During 2005, the Company purchased 122.5 acres of undeveloped land in Florida and, in 2008, completed the construction of its Florida regional sales and inventory center. In late 2007 Mobile Modular expanded its operations into North Carolina and Georgia. In 2008 Mobile Modular’s operations were extended to Maryland and Virginia.

During 2008, under the trade name “TRS-Environmental”, the Company entered the environmental test equipment business serving the Americas. In addition, under the trade name “Mobile Modular Portable Storage”, the Company entered the portable storage container rental business in Northern California.

In November 2008, the Company entered into an Asset Purchase Agreement to acquire substantially all of the assets of the liquid and solid containment tanks and boxes rental business of Adler Tank Rentals, LLC (“Adler Tanks”). Pursuant to the terms and conditions of the Asset Purchase Agreement, the total purchase price was \$90.8 million which consisted of cash consideration of \$87.5 million, 40,000 shares of the Company’s common stock valued at \$0.7 million, \$1.8 million of certain liabilities relating to the rental business and \$0.8 million of transaction costs. The cash portion of the purchase price is subject to certain post-closing adjustments for net working capital. The transaction was completed on December 11, 2008. The Company financed the acquisition from its \$350.0 million credit facility. Since December 11, 2008, Adler Tanks’ results have been included in the Company’s Consolidated Statements of Income, and since that date, the rental business has operated under the name of Adler Tank Rentals.

Business Model

The Company invests capital in rental products and generally has recovered its original investment through rents less operating expenses in a relatively short period of time compared to the product’s rental life. When the Company’s rental products are sold, the proceeds generally have covered a high percentage of the original investment. With these characteristics, a significant base of rental assets on rent generates a considerable amount of operating cash flows to support continued rental asset growth. The Company’s rental products have the following dynamics:

- The product required by the customer tends to be expensive compared to the Company’s monthly rental charge, with the interim rental solution typically evaluated as a less costly alternative.
- Generally, we believe the Company’s customers have a short-term need for our rental products. The customer’s rental requirement may be driven by a number of factors including time, budget or capital constraints, future uncertainty impacting their ongoing requirements, equipment availability, specific project requirements, peak periods of demand or the customer may want to eliminate the burdens and risks of ownership. For modulars, in many cases a customer’s initial short-term rental becomes part of the customer’s ongoing infrastructure and turns into a long-term rental.

- All rental products have long useful lives relative to the typical rental term with modulars having an estimated life of eighteen years compared to the typical committed term of twelve to twenty-four months, electronic test equipment having an estimated life range of two to seven years depending on the type of product compared to a typical rental term of one to six months and liquid and solid containment tanks and boxes having an estimated life of twenty years compared to typical rental terms of one to six months.
- Typically, we believe short-term rental rates recover the Company's original investment quickly, with modulars in approximately four years and electronic test equipment in approximately two and one-half years, based on the respective product's annual yield in 2008, or the annual rental revenues divided by the average cost of rental inventory for 2008.
- When product is sold from rental inventory, a significant portion of the original investment is recovered. Effective asset management is a critical element to each of the rental businesses and the resulting residuals realized when product is sold from inventory. Modular asset management requires designing and building the product for a long life, coupled with ongoing repair and maintenance investments, to ensure its long useful rental life and generally, higher residuals upon sale. Electronic test equipment asset management requires understanding, selecting and investing in equipment technologies that support market demand and, once invested, proactively managing the equipment at the model level for optimum utilization through its technology life cycle maximizing the rental revenues and residuals realized. Liquid and solid containment tanks and boxes asset management requires selecting and purchasing quality product and making ongoing repair and maintenance investments to ensure its long rental life.

The Company believes that rental revenue growth from an increasing base of rental assets and improved gross profits on rents are the best measures of the health of each of our rental businesses. Additionally, we believe our business model and results are enhanced with operational leverage that is created from large regional sales and inventory centers for modulars, a single U.S. based sales, inventory and operations facility for electronic test equipment and shared senior management and back office functions for financing, human resources, insurance, and operating and accounting systems.

Employees

As of December 31, 2008, the Company had 688 employees, of whom 50 were primarily administrative and executive personnel, with 362, 150, 44 and 82 in the operations of Mobile Modular, TRS-RenTelco, Adler Tanks and Enviroplex, respectively. None of our employees are covered by a collective bargaining agreement, and management believes its relationship with our employees is good.

Available Information

We make available, free of charge at our website www.mgrc.com, the Company's Securities and Exchange Commission ("SEC") filings. These filings include our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Act of 1934, which are available as soon as reasonably practicable after the Company electronically files such material with, or furnishes such material to, the SEC. Information included on our web site is not incorporated by reference to this Report. Furthermore, all reports the Company files with the SEC are available free of charge through the SEC's web site at www.sec.gov. In addition, the public may read and copy materials filed by the Company at the SEC's Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549. The public may also obtain additional information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330.

We also have a Code of Business Conduct and Ethics which applies to all directors, officers and employees. Copies of this code can be obtained free of charge at our website www.mgrc.com.

Description

Modulars are designed for use as classrooms, temporary offices adjacent to existing facilities, sales offices, restroom buildings, health care clinics, child care facilities and for a variety of other purposes and office space and may be moved from one location to another. Modulars vary from simple single-unit construction site offices to multi-floor modular units. The Company’s modular rental fleet includes a full range of styles and sizes. The Company considers its modulars to be among the most attractive and well designed available. The units are constructed with wood or metal siding, sturdily built and physically capable of a long useful life. Units are generally provided with installed heat, air conditioning, lighting, electrical outlets and floor covering, and may have customized interiors including partitioning, cabinetry and plumbing facilities.

Mobile Modular purchases new modulars from various manufacturers who build to Mobile Modular’s design specifications. With the exception of Enviroplex, none of the principal suppliers are affiliated with the Company. During 2008, Mobile Modular purchased 21% of its modular units from one manufacturer. The Company believes that the loss of its primary manufacturer of modulars could have an adverse effect on its operations since Mobile Modular could experience higher prices and longer lead times for delivery of modular units until other manufacturers were able to increase their production capacity.

The Company’s modulars are manufactured to comply with state building codes, have a low risk of obsolescence, and can be modified or reconfigured to accommodate a wide variety of customer needs. Historically, as state building codes have changed over the years, Mobile Modular has been able to continue to use existing modulars, with minimal, if any, required upgrades. The Company has no assurance that it will continue to be able to use existing modular equipment with minimal upgrades as building codes change in the future.

Mobile Modular currently operates from two regional sales and inventory centers in California, one in Texas, and one in Florida, serving large geographic areas in these states, and sales offices serving the North Carolina, Georgia, Maryland and Virginia regions. The California, Texas and Florida operations have in-house infrastructure and operational capabilities to support quick and efficient repair, modification, and refurbishment of equipment for the next rental opportunity. Mobile Modular believes operating from large regional sales and inventory centers results in better operating margins as operating costs can be spread over a large installed customer base. Mobile Modular actively maintains and repairs its rental equipment, and management believes this insures the continued use of the modular product over its long life and, when sold, has resulted in higher sale proceeds relative to its capitalized cost. When rental equipment returns from a customer, the necessary repairs and preventative maintenance are performed prior to its next rental. By making these expenditures for repair and maintenance throughout the equipment’s life we believe that older equipment can generally rent for similar rates as newer equipment. Management believes the condition of the equipment is a more significant factor in determining the rental rate and sale price than its age. Over the last three years, used equipment sold each year represented less than 2% of rental equipment, and has been, on average, 11 years old with sale proceeds recovering a high percentage of the equipment’s capitalized cost. Mobile Modular depreciates its rental equipment over 18 years using a 50% residual value.

Competitive Strengths

Market Leadership—The Company believes Mobile Modular is the largest supplier in California, and a significant supplier in Florida and Texas, of modular educational facilities for rental to both public and private schools. Management is knowledgeable about the needs of its educational customers and the related regulatory requirements in the states where Mobile Modular operates, which enables Mobile Modular to meet its customer’s specific project requirements.

Expertise—The Company believes that over the 30 years Mobile Modular has competed in the modular rental industry, it has developed expertise that differentiates it from its competitors. Mobile Modular has dedicated its attention to continuously developing and improving the quality of its modular units. Mobile Modular has expertise in the licensing and regulatory requirements that govern the modulars in the states where it operates and its management, sales and operational staffs are knowledgeable and committed to providing exemplary customer service. Mobile Modular has expertise in project management and complex applications.

Operating Structure—The Company believes that part of the strategy for Mobile Modular should be to create facilities and infrastructure capabilities that its competitors cannot easily duplicate. Mobile Modular achieves this by building regional sales and

inventory centers designed to serve a broad geographic area and a large installed customer base under a single overhead structure, thereby reducing its cost per transaction. The Company's regional facilities and related infrastructure enable Mobile Modular to maximize its modular inventory utilization through efficient and cost effective in-house repair, maintenance and refurbishment for quick redeployment of equipment to meet its customers' needs.

Asset Management—The Company believes Mobile Modular markets high quality, well-constructed and attractive modulars. Mobile Modular requires manufacturers to build to its specifications, which enables Mobile Modular to maintain a standardized quality fleet. In addition, through its ongoing repair, refurbishment and maintenance programs, the Company believes Mobile Modular's buildings are the best maintained in the industry. The Company depreciates its modular buildings over an 18 year estimated useful life to a 50% residual value. Older buildings continue to be productive primarily because of Mobile Modular's focus on ongoing fleet maintenance. Also, as a result of Mobile Modular's maintenance programs, when a modular is sold, a high percentage of the equipment's capitalized cost is recovered. In addition, the fleet's utilization is regionally optimized by managing inventory through estimates of market demand, fulfillment of current rental and sale order activity, modular returns and capital purchases.

Customer Service—The Company believes the modular rental industry to be service intensive and locally based. The Company strives to provide excellent service by meeting its commitments to its customers, being proactive in resolving project issues and seeking to continuously improve the customer's experience. Mobile Modular is committed to offering quick response to requests for information, providing experienced assistance, on time delivery and preventative maintenance of its units. Mobile Modular's goal is to continuously improve its procedures, processes and computer systems to enhance internal operational efficiency. The Company believes this dedication to customer service results in high levels of customer loyalty and repeat business.

Management estimates the business of renting relocatable modular buildings is an industry that today has equipment on rent or available for rent in the United States with an aggregate original cost of over \$4.0 billion.

Market

Mobile Modular's largest market segment is for temporary classroom and other educational space needs of public and private schools, colleges and universities in California and Florida, and to a lesser extent in Texas, North Carolina, Georgia, Maryland and Virginia. Management believes the demand for rental 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, class size reduction and the phasing out of portable classrooms compliant with older building codes (see "Classroom Rentals and Sales to Public Schools (K-12)" below). Other customer applications include sales offices, construction field offices, health care facilities, church sanctuaries and child care services. Industrial, manufacturing, entertainment and utility companies, as well as governmental agencies commonly use large multi-modular complexes to serve their interim administrative and operational space needs. Modulars offer customers quick, cost-effective space solutions while conserving their capital. The Company's corporate offices, and California, Texas and Florida modular regional sales and inventory center offices are housed in various sizes of modular units.

Since most of Mobile Modular's customer requirements are to fill temporary space needs, Mobile Modular's marketing emphasis is on rentals rather than sales. Mobile Modular attracts customers through its website at www.mobilemodularrents.com, extensive yellow page advertising, internet advertising and direct mail. Customers are encouraged to visit a sales and inventory center to view different models on display and to see a regional office, which is a working example of a modular application.

Because service is a major competitive factor in the rental of modulars, Mobile Modular offers quick response to requests for information, assistance in the choice of a suitable size and floor plan, in-house customization services, rapid delivery, timely installation and field service of its units. On Mobile Modular's website, customers are able to view and select inventory for quotation, request in-field service and view billing and account balance information.

Rentals

Rental periods range from one month to several years with a typical initial contract term between twelve and twenty-four months. In general, monthly rental rates are determined by a number of factors including length of term, product availability and product type. Upon expiration of the initial rental agreement term, or any extensions, rental rates are reviewed, and when appropriate, are adjusted based on

current market conditions. Most rental agreements are operating leases that provide no purchase options, and when a rental agreement does provide the customer with a purchase option, it is generally on terms management believes to be attractive to Mobile Modular.

The customer is responsible for obtaining the necessary use permits and the costs of insuring the unit, transporting the unit to the site, preparation of the site, installation of the unit, dismantle and return delivery of the unit to Mobile Modular, and certain costs for customization. Mobile Modular maintains the units in good working condition while on rent. Upon return, the units are inspected for damage and customers are billed for items considered beyond normal wear and tear. Generally, the units are then repaired for subsequent use. Repair and maintenance costs are expensed as incurred and can include floor repairs, roof maintenance, cleaning, painting and other cosmetic repairs. The costs of major refurbishment of equipment are capitalized to the extent the refurbishment significantly improves the quality and adds value or life to the equipment.

At December 31, 2008, Mobile Modular owned 28,373 new or previously rented modulares including accessories with an aggregate cost of \$503.7 million, or an average cost per unit of \$17,800. Utilization is calculated each month by dividing the cost of rental equipment on rent by the total cost of rental equipment, excluding new equipment inventory and accessory equipment. At December 31, 2008, fleet utilization was 81.0% and average fleet utilization during 2008 was 81.6%.

Sales

In addition to operating its rental fleet, Mobile Modular sells modulares to customers. These sales typically arise out of its marketing efforts for the rental fleet and from existing equipment already on rent. Such sales can be of either new or used units from the rental fleet, which permits an orderly turnover of older units. During 2008, Mobile Modular's largest sale was for new modular classrooms to a Florida school district for approximately \$1.2 million. This sale represented approximately 5% of Mobile Modular's sales, 2% of the Company's consolidated sales, and less than 1% of the Company's consolidated revenues.

Mobile Modular typically provides limited 90-day warranties on used modulares and passes through the manufacturers' one-year warranty on new units to its customers. Warranty costs have not been significant to Mobile Modular's operations to date, and the Company attributes this to its commitment to high quality standards and regular maintenance programs. However, there can be no assurance that warranty costs will continue to be insignificant to Mobile Modular's operations in the future.

Seasonality

Typically, during each calendar year, our highest numbers of classrooms are shipped for rental and sale orders during the second and third quarters for delivery and installation prior to the start of the upcoming school year. The majority of classrooms shipped in the second and third quarters have rental start dates during the third quarter, thereby making the fourth quarter the first full quarter of rental revenues recognized for these transactions. These factors may impact the quarterly revenues and earnings of each year's second, third and fourth quarters.

Competition

Competition in the rental and sale of relocatable modular buildings is intense. Two major national firms, Williams Scotsman International, Inc. and Modspace, Inc., are engaged in the rental of modulares, have many offices throughout the country and we believe have greater financial resources than Mobile Modular. In addition, a number of other smaller companies operate regionally throughout the country. Mobile Modular operates primarily in California, Texas, Florida, beginning late in 2007 in North Carolina and Georgia and beginning in 2008 in Virginia and Maryland. Significant competitive factors in the rental business include availability, price, service, reliability, appearance and functionality of the product. Mobile Modular markets high quality, well-constructed and attractive modulares. The Company believes that part of the strategy for modulares is to create facilities and infrastructure capabilities that its competitors cannot easily duplicate. The Company's facilities and related infrastructure enable it to modify modulares efficiently and cost effectively to meet its customers' needs. Management's goal is to be more responsive at less expense. Management believes this strategy, together with its emphasis on prompt and efficient customer service, gives Mobile Modular a competitive advantage. Mobile Modular is determined to respond quickly to requests for information, and provide experienced assistance for the first-time user, rapid delivery and timely repair of its modular units. Mobile Modular's already high level of efficiency and responsiveness continues to improve as the Company upgrades procedures, processes and computer systems that

control its internal operations. The Company anticipates continued intense competition and believes it must continue to improve its products and services to remain competitive in market for modulars.

Classroom Rentals and Sales to Public Schools (K-12)

The rental and sales of modulars to public 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 of the Company's modular rental and sales revenues, and of its consolidated rental and sales revenues for the past five years, that rentals and sales to these schools constitute:

Rentals and Sales to Public Schools (K-12) as a Percentage of Total Rental and Sales Revenues

Percentage of:	2008	2007	2006	2005	2004
Modular Rental Revenues (<i>Mobile Modular</i>)	51%	50%	50%	53%	52%
Modular Sales Revenues (<i>Mobile Modular & Enviroplex</i>)	60%	59%	65%	67%	72%
Modular Rental and Sales Revenues (<i>Mobile Modular & Enviroplex</i>)	54%	53%	55%	59%	59%
Consolidated Rental and Sales Revenues ¹	30%	30%	33%	34%	36%

¹ Consolidated Rental and Sales Revenue percentage is calculated by dividing Modular rental and sales revenues to public schools (K-12) by the Company's consolidated rental and sales revenues.

School Facility Funding

Funding for public school facilities is derived from a variety of sources including the passage of both statewide and local facility bond measures, operating budgets, developer fees, various taxes including parcel and sales taxes levied to support school operating budgets, and lottery funds. Looking forward, the Company believes that any interruption in the passage of facility bonds, contraction or elimination of class size reduction programs, a lack of fiscal funding, or a significant reduction of funding from other sources to public schools may have a material adverse effect on both rental and sales revenues of the Company.

Legislation

In California (where most of the Company's educational rentals have occurred), school districts are permitted to purchase only portable classrooms built to the requirements of the California Division of State Architect ("DSA"). However, school districts may rent classrooms that meet either the Department of Housing and Community Development ("DOH") or DSA requirements. In 1988, California adopted a law which limited the term for which school districts may rent portable classrooms built to DOH standards for up to three years (under a waiver process), and also required the school board to indemnify the State against any claims arising out of the use of such classrooms. Prior to 1988, the majority of the classrooms in the Company's rental fleet were built to the DOH requirements, and since 1988 almost all new classrooms have been built to the DSA requirements. During the 1990's additional legislation was passed extending the use of these DOH classroom buildings under the waiver process through September 30, 2000. In 2000, new California legislation was passed allowing for DOH classroom buildings already in use for classroom purposes as of May 1, 2000 to be utilized until September 30, 2007, provided various upgrades were made to their foundation and ceiling systems. In February 2006, new legislation was passed extending the use of these classroom buildings from September 30, 2007 to September 30, 2015. Currently, regulations and policies are in place that allow for the ongoing use of DOH classrooms from the Company's inventory to meet shorter term space needs of school districts for periods up to 24 months, provided they receive a "Temporary Certification" or "Temporary Exemption" from the DSA. 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. There can be no assurance that these regulations and policies that allow for the continuing rental of DOH classrooms for new public school projects will remain in place. At December 31, 2008, the net book value of DOH classrooms represented less than 1.5% of the net book value of the Company's modular rental equipment and less than 1.0% of the total assets of the Company, and the utilization of these DOH classrooms was 58.0%.

In 2002, Florida passed a state constitutional amendment setting limits for the maximum allowable number of students in a class for pre-kindergarten through grade twelve. In 2007, school districts were required to meet class size limits based upon the average number of students per class at the school level. By 2009, school districts will be required to meet the class size requirements at the individual classroom level. The class size reduction program is scheduled for implementation through 2010.

Description

TRS-RenTelco's general-purpose test equipment rental inventory includes oscilloscopes, amplifiers, analyzers (spectrum, network and logic), signal source and power source test equipment. The communications test equipment rental inventory includes network and transmission test equipment for various fiber, copper and wireless networks. Agilent Technologies and Tektronix manufacture the majority of the general-purpose inventory and the communications test equipment inventory includes equipment from over 50 different manufacturers. TRS-RenTelco also rents electronic test equipment from other rental companies and re-rents the equipment to customers.

Competitive Strengths

Market Leadership—The Company believes that TRS-RenTelco is one of the largest electronic test equipment rental and leasing companies offering the broadest and deepest selection of general purpose and communications test equipment for rent in North America.

Expertise—The Company believes that its knowledge of products, technology and applications expertise provides it with a competitive advantage over others in the industry. Customer requirements are supported by application engineers and technicians that are knowledgeable about the equipment's uses to ensure the right equipment is selected to meet the customer's needs. This knowledge can be attributed to the vast experience of TRS-RenTelco's management, sales and operational teams.

Operating Structure—TRS-RenTelco is supported by a centralized distribution and inventory center on the grounds of the Dallas-Fort Worth Airport in Texas. The Company believes that the centralization of servicing all customers in North America and internationally by TRS-RenTelco's experienced logistics teams provides a competitive advantage by minimizing transaction costs and enabling TRS-RenTelco to ensure customer requirements are met.

Asset Management—TRS-RenTelco's rental equipment inventory is serviced by an ISO 9001-2000 registered and compliant calibration laboratory that repairs and calibrates equipment ensuring that off rent equipment is ready to ship immediately to meet customers' needs. TRS-RenTelco's team of technicians, product managers and sales personnel are continuously monitoring and analyzing the utilization of existing products, new technologies, general economic conditions and estimates of customer demand to ensure the right equipment is purchased and sold, at the right point in the equipment's technology life cycle. The Company believes this enables it to maximize utilization of equipment and the cash flow generated by the rental and sales revenue of each model of equipment. TRS-RenTelco strives to maintain strong relationships with equipment manufacturers, which enables it to leverage those relationships to gain rental opportunities.

Customer Service—The Company believes that its focus on providing excellent service to its customers provides a competitive advantage. TRS-RenTelco strives to provide exemplary service to fulfill its commitments to its customers. TRS-RenTelco prides itself in providing solutions to meet customers' needs by having equipment available, and responding quickly and thoroughly to their requests. TRS-RenTelco's sophisticated in-house laboratory ensures the equipment is fully functional and meets its customers' delivery requirements. Service needs of TRS-RenTelco's customers are supported 24 hours a day, 7 days a week by its customer care specialists. TRS-RenTelco's goal is to provide service beyond its customers' expectations, which, the Company believes, results in customer loyalty and repeat business. In January 2008, TRS-RenTelco launched an online ordering website for rental test equipment. The Company believes web-based sales offerings will become an increasingly important competitive advantage. TRS-RenTelco intends to provide online support, product application and order taking on a 24 hours a day, 5 days a week time frame.

Market

The business of renting electronic test equipment is a market which today has equipment on rent or available for rent in the United States and Canada with an aggregate original cost in excess of a half billion dollars. There is a broad customer base for the rental of such instruments, including aerospace, communications, defense, electrical contractor electronics, industrial, installer contractor, network systems and research companies.

TRS-RenTelco markets its electronic test equipment throughout the United States, Canada, and, to a limited extent, other countries. TRS-RenTelco attracts customers through its outside sales force, website at www.TRS-RenTelco.com, an extensive telemarketing program, trade show participation and direct mail campaigns. A key part of the sales process is TRS-RenTelco's knowledgeable inside sales engineering team that effectively matches test equipment solutions to meet specific customer's requirements.

The Company believes that customers rent electronic test equipment for many reasons. Customers frequently need equipment for short-term projects, to evaluate new products, and for backup to avoid costly downtime. Delivery times for the purchase of such equipment can be lengthy; thus, renting allows the customer to obtain the equipment expeditiously. The Company also believes that the relative certainty of rental costs can facilitate cost control and be useful in the bidding of and pass-through of contract costs. Finally, renting rather than purchasing may better satisfy the customer's budgetary constraints.

Rentals

TRS-RenTelco rents electronic test equipment typically for rental periods of from one to six months, although in some instances, there can be rental terms up to a year or greater. Monthly rental rates range from approximately 3% to 10% of the current manufacturers' list price. TRS-RenTelco depreciates its equipment over 1 to 8 years with no residual value.

At December 31, 2008, TRS-RenTelco had an electronic test equipment rental inventory including accessories with an aggregate cost of \$255.8 million. Utilization is calculated each month by dividing the cost of the rental equipment on rent by the total cost of rental equipment, excluding accessory equipment. Utilization was 64.0% as of December 31, 2008 and averaged 68.1% during the year.

Sales

TRS-RenTelco generally sells used equipment to maintain an inventory of equipment meeting more current technological standards, and to support maintaining target utilization levels at a model number level. TRS-RenTelco attempts to maintain an inventory where the majority of equipment is less than five years old. In 2008, approximately 20% of the electronic test equipment revenues were derived from sales. The largest electronic test equipment sale during 2008 represented approximately 2.5% of electronic test equipment sales, 0.9% of the Company's consolidated sales and 0.2% of consolidated revenues.

Seasonality

The Company does not believe the electronic test equipment rental business to be highly seasonal, except for the fourth quarter month of December and the first quarter months of January and February. These months may have lower rental activity due to holiday closures, particularly by larger companies, inclement weather and its impact on various field related communications equipment rentals, and companies' operational recovery from holiday closures which may impact the start-up of new projects coming online in the first quarter. These factors may impact the quarterly results of each year's first and fourth quarter.

Competition

The electronic test equipment rental business is characterized by intense competition from several competitors, including Electro Rent Corporation, Telogy and Continental Resources, some of which may have access to greater financial and other resources than we do. TRS-RenTelco competes with these and other test equipment rental companies on the basis of product availability, price, service and reliability. Although no single competitor holds a dominant market share, we face intensifying competition from these established entities and new entrants in the market. Some of our competitors may offer similar equipment for lease, rental or sales at lower prices and may offer more extensive servicing, or financing options.

Description

Adler Tanks' rental inventory is comprised of tanks and boxes used for various containment solutions to store hazardous and non-hazardous liquids and solids in applications such as: oil and gas exploration and field services, refinery, chemical and industrial plant maintenance, environmental remediation and field services, heavy and commercial building construction, marine services, pipeline construction and maintenance, tank terminals services, wastewater treatment, and waste management and landfill services. The tanks and boxes are comprised of the following products:

- fixed axle steel tanks ("tanks") for the storage of groundwater, wastewater, volatile organic liquids, sewage, slurry and bio sludge, oil and water mixtures and chemicals. Tanks are available in a variety of sizes including 21,000 gallon, 16,000 gallon, 10,000 gallon and 8,000 gallon;
- vacuum containers ("boxes"), which provide secure containment of sludge and solid materials. Vacuum boxes may be used for additional on-site storage or for transporting materials off-site or enabling vacuum trucks to remain in operation;
- dewatering boxes for the separation of water contained in sludge and slurry; and
- roll-off and trash boxes for the temporary storage and transport of solid waste.

Adler Tanks purchases tanks and boxes from various manufacturers located throughout the country. With the exception of Sabre Manufacturing LLC ("Sabre"), none of the principal suppliers are affiliated with the Company. Sabre is independently operated and is 100% owned by the President of Adler Tanks. Adler Tanks purchases tanks from Sabre on terms and conditions pursuant to arms-length negotiations conducted at the time of purchase.

Competitive Strengths

Market Leadership—The Company believes that Adler Tanks is the fifth largest participant in the liquid and solid containment tanks and boxes rental business in North America. It operates from branches serving the Northeast, Mid-Atlantic, Midwest and Texas.

Expertise—The Company believes that Adler Tanks has highly experienced operating management and branch employees. Adler Tanks employees are knowledgeable about the operation of its rental equipment and customer applications. Adler Tanks believes that it provides a superior level of customer service due to its strong relationship building skills and the quality of its responsiveness.

Asset Management—The Company believes that Adler Tanks markets a high quality, well constructed and well maintained rental product. The Company depreciates its tanks and boxes over a 20 year estimated useful life to 0% residual value. We believe that if maintained, older tanks and boxes will continue to produce similar rental rates as newer equipment. The fleet's utilization is regionally optimized by understanding customer demand, expected returns and manufacturer's production capacity to manage overall fleet utilization at optimum levels.

Market

The United States liquid and solid containment rental market is estimated at \$1 billion of annual rental revenues. There are a large and diverse number of market segments including oil and gas exploration and field services, refinery, chemical and industrial plant maintenance, environmental remediation and field services, heavy and commercial building construction, marine services, pipeline construction and maintenance, tank terminals services, wastewater treatment, and waste management and landfill services.

The tank and box rental products that Adler Tanks builds may be utilized throughout the U.S. and are not subject to any local or regional construction code or approval standards.

Rentals

Adler Tanks rents tanks and boxes typically for rental periods of one to six months, although in some instances, there can be rental terms up to a year or greater. Monthly rates typically range from 2% to 10% of the equipment's original acquisition cost.

Utilization is calculated each month by dividing the cost of the rental equipment on rent by the total cost of rental equipment, excluding accessory equipment. Utilization was 70.3% at December 31, 2008.

Seasonality

The Company does not believe the liquid and solid containment rental industry to be highly seasonal, except for the fourth quarter month of December and the first quarter months of January and February. These months may have lower rental activity due to inclement weather in certain regions of the country impacting the industries that we serve.

Competition

The liquid and solid containment rental industry is highly competitive including national, regional and local companies. Some of our national competitors, notably BakerCorp and Rain For Rent, are significantly larger than we are and have greater financial and marketing resources than we have. Some of our competitors also have longer operating histories, lower cost basis of rental equipment, lower cost structures and more established relationships with equipment manufacturers than we have. In addition, certain of our competitors are more geographically diverse than we are and have greater name recognition among customers than we do. As a result, our competitors that have these advantages may be better able to attract customers and provide their products and services at lower rental rates. Adler Tanks competes with these companies based upon product availability, product quality, price, service and reliability. We may in the future encounter increased competition in the markets that we serve from existing competitors or from new market entrants.

Operating Segments

For segment information regarding the Company's four operating segments: Mobile Modular, TRS-RenTelco, Adler Tanks and Enviroplex, see "Note 10. Segment Reporting" to the audited consolidated financial statements of the Company included in "Item 8. Financial Statements and Supplementary Data."

PRODUCT HIGHLIGHTS

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

Product Highlights

(dollar amounts in thousands)

	Year Ended December 31,				
	2008	2007	2006	2005	2004
Relocatable Modular Buildings (operating under Mobile Modular and Enviroplex)					
Revenues					
Rental	\$ 103,236	\$ 100,541	\$ 91,124	\$ 81,180	\$ 71,460
Rental Related Services	31,484	32,982	29,913	25,053	22,142
Total Modular Rental Operations	<u>134,720</u>	<u>133,523</u>	<u>121,037</u>	<u>106,233</u>	<u>93,602</u>
Sales—Mobile Modular	25,796	29,349	34,209	49,107	27,617
Sales—Enviroplex	19,484	10,649	12,393	10,562	9,254
Total Modular Sales	<u>45,280</u>	<u>39,998</u>	<u>46,602</u>	<u>59,669</u>	<u>36,871</u>
Other	543	654	729	625	444
Total Modular Revenues	<u>\$ 180,543</u>	<u>\$ 174,175</u>	<u>\$ 168,368</u>	<u>\$ 166,527</u>	<u>\$ 130,917</u>
Percentage of Rental Revenues	52.3%	54.3%	53.9%	53.3%	59.4%
Percentage of Total Revenues	59.3%	62.1%	63.0%	61.2%	64.6%
Rental Equipment, at cost (year-end)	\$ 503,678	\$ 475,077	\$ 451,828	\$ 408,227	\$ 339,537
Rental Equipment, net book value (year-end)	\$ 376,606	\$ 358,017	\$ 343,590	\$ 307,822	\$ 245,924
Number of Units (year-end)	28,373	27,151	26,467	24,928	21,566
Utilization (year-end) ¹	81.0%	82.8%	81.4%	83.5%	86.1%
Average Utilization ¹	81.6%	82.3%	82.9%	84.9%	85.6%
Average Rental Equipment, at cost ²	\$ 461,848	\$ 427,859	\$ 385,630	\$ 341,103	\$ 303,294
Annual Yield on Average Rental Equipment, at cost	22.4%	23.5%	23.6%	23.8%	23.6%
Gross Margin on Rental Revenues	63.2%	64.5%	62.2%	63.8%	63.0%
Gross Margin on Sales	26.5%	27.5%	27.9%	26.4%	23.3%

Electronic Test Equipment

(operating under TRS-RenTelco)

Revenues					
Rental	\$ 92,982	\$ 84,776	\$ 77,816	\$ 71,136	\$ 48,898
Rental Related Services	2,024	1,731	1,686	1,407	1,205
Total Electronics Rental Operations	<u>95,006</u>	<u>86,507</u>	<u>79,502</u>	<u>72,543</u>	<u>50,103</u>
Sales	24,948	17,831	17,483	31,154	20,291
Other	1,896	1,896	1,713	1,956	1,209
Total Electronics Revenues ³	<u>\$ 121,850</u>	<u>\$ 106,234</u>	<u>\$ 98,698</u>	<u>\$ 105,653</u>	<u>\$ 71,603</u>
Percentage of Rental Revenues	47.1%	45.7%	46.1%	46.7%	40.6%
Percentage of Total Revenues	40.1%	37.9%	37.0%	38.8%	35.4%
Rental Equipment, at cost (year-end)	\$ 255,778	\$ 232,349	\$ 186,673	\$ 154,708	\$ 149,437
Rental Equipment, net book value (year-end)	\$ 129,573	\$ 127,997	\$ 107,752	\$ 98,611	\$ 111,864
Utilization (year-end) ¹	64.0%	69.3%	66.3%	68.9%	61.6%
Average Utilization ¹	68.1%	68.3%	69.6%	66.2%	61.7%
Average Rental Equipment, at cost ⁴	\$ 250,173	\$ 209,546	\$ 170,705	\$ 151,087	\$ 93,387
Annual Yield on Average Rental Equipment, at cost	37.2%	40.5%	45.6%	47.1%	52.4%
Gross Margin on Rental Revenues	40.3%	41.8%	42.8%	38.1%	38.7%
Gross Margin on Sales	33.8%	35.0%	37.8%	24.7%	26.8%
Total Revenues⁵	\$304,159	\$280,409	\$267,066	\$272,180	\$202,520

¹ Utilization is calculated each month by dividing the cost of rental equipment on rent by the total cost of rental equipment, excluding new equipment inventory and accessory equipment. Average Utilization is calculated using the average cost of equipment for the year.

² Average Rental Equipment, at cost for modulars excludes new equipment inventory and accessory equipment.

³ In 2004, certain electronics revenue amounts were reclassified to conform to the current year presentation.

⁴ Average Rental Equipment, at cost, for electronics excludes accessory equipment.

⁵ 2008 Total Revenues include Adler Tanks revenues of \$1,766 for the period from December 11, 2008 (acquisition date) through December 31, 2008. Due to Adler Tanks limited period of operation in 2008, full product line results are not presented.

Item 1A. Risk Factors

You should carefully consider the following discussion of various risks and uncertainties. We believe these risk factors are the most relevant to our business and could cause our results to differ materially from the forward-looking statements made by us. Our business, financial condition, and results of operations could be seriously harmed if any of these risks or uncertainties actually occur or materialize. In that event, the market price for our common stock could decline, and you may lose all or part of your investment.

The effects of a recession in the United States and other countries and the continuing financial and credit crisis may adversely impact our business and financial condition and may negatively impact our ability to access financing.

The U.S. economy is currently in a recession which may deepen and continue for the foreseeable future. Demand for our rental products depends on continued industrial and business activity and state government funding. The continuation of the U.S. recession and general global economic downturn could adversely affect our customers, including local school districts, which could result in decreased demand for the products we rent. Reduced demand for our rental products and deflation could increase price competition. This lowered demand and price pressure could have a material adverse effect on our revenue and profitability.

The continued credit crisis and related instability in the global financial system may also have an impact on our business and our financial condition. General economic conditions and the tightening credit markets have significantly affected the ability of many companies to raise new capital or refinance existing indebtedness. While we intend to finance expansion with cash flow from operations and borrowing under our existing unsecured revolving line of credit facility, we may require additional financing to support our continued growth. Due to constriction in the capital markets, should we need to access the market for additional funds or to refinance our existing indebtedness, we may not be able to obtain such additional funds on terms acceptable to the Company or at all. All of these factors could impact our business, resulting in lower revenues and lower levels of earnings in future periods. At the current time we are uncertain as to the magnitude, if any, of such changes in our business.

Our stock price is subject to fluctuations and the value of your investment may decline.

The market price of our common stock fluctuates on the NASDAQ Global Select Market and is likely to be affected by a number of factors including but not limited to:

- our operating performance and the performance of our competitors, and in particular any variations in our operating results or dividend rate from our stated guidance or from investors' expectations;
- changes in general conditions in the economy, the industries in which we operate or the financial markets;
- investor's reaction to our press releases, public announcements, or filings with the SEC;
- the stock price performance of competitors or other comparable companies;
- changes in research analysts' coverage, recommendations or earnings estimates for us or for the stocks of other companies in our industry;
- sales of common stock by our directors, executive officers and our other large shareholders, particularly in light of the limited trading volume of our stock;
- any merger and acquisition activity that involves us or our competitors; and
- other announcements or developments affecting us, our industry, customers, suppliers, or competitors.

In addition, in recent years the stock market has experienced significant price and volume fluctuations. These fluctuations are often unrelated to the operating performance of particular companies. More recently, the global credit crisis has adversely affected the prices of publicly traded stocks across the board as stockholders have become more willing to divest their stock holdings at lower values to increase their cash flow and reduce exposure. These broad market fluctuations and recent negative economic trends may cause declines in the market price of our common stock and are based upon factors that have little or nothing to do with our Company or its performance, and these fluctuations and trends could materially reduce our stock price.

Our future operating results may fluctuate, fail to match past performance or fail to meet expectations.

Our operating results may fluctuate in the future, may fail to match our past performance or fail to meet the expectations of analysts and investors. Our results and related ratios, such as gross margin, operating income percentage and effective tax rate may fluctuate as a result of a number of factors, some of which are beyond our control including but not limited to:

- general economic conditions in the states and countries where we rent and sell our products;
- legislative and educational policies where we rent and sell our products;
- seasonality of our rental businesses and our end-markets;
- success of our strategic growth initiatives;
- costs associated with the launching or integration of new or acquired businesses;
- the timing and type of equipment purchases, rentals and sales;
- the nature and duration of the equipment needs of our customers;
- the timing of new product introductions by us, our suppliers and our competitors;
- the volume, timing and mix of maintenance and repair work on our rental equipment;
- our equipment mix, availability, utilization, and pricing;
- the mix, by state and country, of our revenues, personnel and assets;
- rental equipment impairment from excess, obsolete, or damaged equipment;
- movements in interest rates or tax rates;
- changes in, and application of, accounting rules;
- changes in the regulations applicable to us; and
- litigation matters.

As a result of these factors, our historical financial results are not necessarily indicative of our future results.

Our ability to retain our executive management and to recruit, retain and motivate key employees is critical to the success of our business.

If we cannot successfully recruit and retain qualified personnel, our operating results and stock price may suffer. We believe that our success is directly linked to the competent people in our organization, including our executive officers, senior managers and other key personnel, and in particular, Dennis Kakures our Chief Executive Officer. Personnel turnover can be costly and could materially and adversely impact our operating results and can potentially jeopardize the success of our current strategic initiatives. We need to attract and retain highly qualified personnel to replace personnel when turnover occurs, as well as add to our staff levels as growth occurs. Our business and stock price likely will suffer if we are unable to fill, or experience delays in filling open positions, or fail to retain key personnel when turnover occurs.

Failure by third parties to manufacture and deliver our products to our specifications or on a timely basis may harm our reputation and financial condition.

We depend on third parties to manufacture our products even though we are able to purchase products from a variety of third-party suppliers. In the future, we may be limited as to the number of third-party suppliers for some of our products. Although in general, we make advance purchases of some products to help ensure an adequate supply, currently, we do not have any long-term purchase contracts with any third-party supplier. We may experience supply problems as a result of financial or operating difficulties of our suppliers, shortages, and discontinuations resulting from product obsolescence or other shortages or allocations by suppliers. Current unfavorable economic conditions may also adversely affect our suppliers or the terms on which we purchase products. In the future, we may not be able to negotiate arrangements with third parties to secure products that we require in sufficient quantities or on reasonable terms. If we cannot negotiate arrangements with third parties to produce our products or if the third parties fail to produce our products to our specifications or in a timely manner, our reputation and financial condition could be harmed.

Disruptions in our information technology systems could limit our ability to effectively monitor and control our operations and adversely affect our operations.

Our information technology systems facilitate our ability to monitor and control our operations and adjust to changing market conditions. Any disruption in any of our information technology systems or the failure of these systems to operate as expected could, depending on the magnitude of the problem, adversely affect our operating results by limiting our capacity to effectively monitor and control our operations and adjust to changing market conditions in a timely manner.

In June 2005, we entered into an agreement with Rental Result, a rental software application provider, to support the transition of our modular business, certain aspects of our electronic test equipment business and our accounting systems to their platform. These information system upgrades are important to serve and support our strategic growth. The first and largest phase of this multi-year project was implemented in October 2008. We expect the continuing upgrades to our IT infrastructure will result in higher ongoing selling and administrative costs in 2009.

The delay or failure to implement these new systems effectively could disrupt our business, distract management's focus and attention from our business operations and growth initiatives, and increase our implementation and operating costs, any of which could negatively impact our operations and operating results.

We have engaged in acquisitions and may engage in future acquisitions that could negatively impact our results of operations, financial condition and business.

In 2004, we acquired TRS, an electronic test equipment rental business and in 2008 we acquired Adler Tank Rentals, a liquid and solid containment rental business. We anticipate that we will continue to consider acquisitions in the future that meet our strategic growth plans. We are unable to predict whether or when any prospective acquisition will be completed. Acquisitions involve numerous risks, including the following:

- difficulties in integrating the operations, technologies, products and personnel of the acquired companies;
- diversion of management's attention from normal daily operations of the business;
- difficulties in entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;
- difficulties in complying with regulations, such as environmental regulations, and managing risks related to an acquired business;
- timely completion of necessary financing and required amendments, if any, to existing agreements;
- an inability to implement uniform standards, controls, procedures and policies;
- undiscovered and unknown problems, defects, liabilities, or other issues related to any acquisition that become known to us only after the acquisition;
- negative reactions from our customers to an acquisition;
- disruptions among employees which may erode employee morale;
- potential loss of key employees, including costly litigation resulting from the termination of those employees.

In connection with acquisitions we may:

- assume liabilities or acquire damaged assets, some of which may be unknown at the time of such acquisitions;
- record goodwill and non-amortizable intangible assets that will be subject to future impairment testing and potential periodic impairment charges;
- incur amortization expenses related to certain intangible assets; or
- become subject to litigation.

Acquisitions are inherently risky, and no assurance can be given that our future acquisitions will be successful or will not adversely affect our business, operating results, or financial condition. Failure to manage and successfully integrate acquisitions we make could harm our business and operating results in a material way. In addition, if we consummate one or more significant future acquisitions in which the consideration consists of stock or other securities, our existing shareholders' ownership could be diluted significantly. If we were to proceed with one or more significant future acquisitions in which the consideration included cash, we could be required to use a substantial portion of our available credit line. If we increase the amount borrowed against our available credit line, we would increase the risk of breaching the covenants under our credit facilities with our lenders. In addition, it would limit our ability to make other investments, or we may be required to seek additional debt or equity financing.

We could have difficulty integrating the operations of Adler Tank Rentals and other businesses that we may acquire, which could adversely affect our results of operations.

The success of our acquisition strategy depends upon our ability to successfully complete acquisitions and integrate any businesses that we acquire into our existing business. In December 2008, we acquired Adler Tank Rentals. The integration of the Adler Tank Rentals business is ongoing and could disrupt our business by diverting management's attention from day-to-day operations and requiring significant financial resources that would otherwise be used for the ongoing development of our business. The difficulties of integration could be increased by the necessity of coordinating geographically dispersed organizations; maintaining acceptable standards, controls, procedures and policies; integrating personnel with disparate business backgrounds; combining different corporate cultures; and the impairment of relationships with employees and customers as a result of any integration of new management and other personnel. In addition, we could be unable to retain key employees or customers of the combined businesses. We could face integration issues pertaining to the internal controls and operational functions of the acquired companies and we also could fail to realize cost efficiencies or synergies that we anticipated when selecting our acquisition candidates. Any of these items could adversely affect our results of operations.

If we do not effectively manage our credit risk, collect on our accounts receivable, or recover our rental equipment from our customers' sites, it could have a material adverse effect on our operating results.

We generally sell to customers on 30-day terms, individually perform credit evaluation procedures on our customers on each transaction and require security deposits or other forms of security from our customers when a significant credit risk is identified. Historically, accounts receivable write-offs and write-offs related to equipment not returned by customers have not been significant and, in each of the last five years have been less than 1% of total revenues. If economic conditions continue to worsen, we may see an increase in bad debt relative to historical levels, which may materially and adversely affect our operations. Failure to manage our credit risk and receive timely payments on our customer accounts receivable may result in the write-off of customer receivables and loss of equipment, particularly electronic test equipment. If we are not able to manage credit risk issues, or if a large number of customers should have financial difficulties at the same time, our credit and equipment losses would increase above historical levels. If this should occur, our results of operations may be materially and adversely affected.

Effective management of our rental assets is vital to our business.

Our modular, electronics and liquid and solid containment rental products have long useful lives and managing those assets is a critical element to each of our rental businesses. Modular asset management requires designing and building the product for a long life that anticipates the needs of our customers, including anticipating changes in legislation, regulations, building codes and local permitting in the various markets in which the Company operates. Electronic test equipment asset management requires understanding, selecting and investing in equipment technologies that support market demand, including anticipating technological advances and changes in manufacturers' selling prices. Liquid and solid containment asset management requires designing and building the product for a long life, using quality components and repairing and maintaining the products to prevent leaks. For each of our modular, electronic test equipment and liquid and solid containment assets, we must successfully maintain and repair this equipment cost-effectively to maximize the useful life of the products and the level of proceeds from the sale of such products.

The nature of our businesses, including the ownership of industrial property, exposes us to the risk of litigation and liability under environmental, health and safety and products liability laws.

We are subject to national, state, provincial and local environmental laws and regulations concerning, among other things, solid and liquid waste and hazardous substances handling, storage and disposal and employee health and safety. These laws and regulations are complex and frequently change. We could incur unexpected costs, penalties and other civil and criminal liability if we fail to comply with environmental or health and safety laws. We also could incur costs or liabilities related to waste disposal or remediating soil or groundwater contamination at our properties, at our customers' properties or at third party landfill and disposal sites. These liabilities can be imposed on the parties generating, transporting or disposing of such substances or on the owner or operator of affected property, often without regard to whether the owner or operator knew of, or was responsible for, the presence of hazardous substances.

Several aspects of our businesses involve risks of environmental and health and safety liability. For example, our operations involve the use of petroleum products, solvents and other hazardous substances in the construction and maintaining of modular buildings and for fueling and maintaining our delivery trucks and vehicles. We also own, transport and rent tanks and boxes in which waste materials are placed by our customers. The historical operations at some of our previously owned or leased and newly acquired or leased properties may have resulted in undiscovered soil or groundwater contamination or historical non-compliance. Future events, such as changes in existing laws or policies or their enforcement, or the discovery of currently unknown contamination or non-compliance, may also give rise to liabilities or other claims based on these operations that may be material. In addition, future environmental or health and safety laws and regulations may require significant capital or operational expenditures or changes to our operations.

Accordingly, in addition to potential penalties for non-compliance, we may become liable, either contractually or by operation of law, for investigation, remediation and monitoring costs even if the contaminated property is not presently owned or operated by us, or if the contamination was caused by third parties during or prior to our ownership or operation of the property. In addition, certain parties may be held liable for more than their fair share of environmental investigation and cleanup costs. Contamination and exposure to hazardous substances or other contaminants such as mold can also result in claims for remediation or damages, including personal injury, property damage, and natural resources damage claims. Although expenses related to environmental compliance, health and safety issues, and related matters, have not been material to date, we cannot assure that we will not have to make significant expenditures in the future in order to remain in compliance with applicable laws and regulations. Violations of environmental or health and safety related laws or associated liability could have a material adverse effect on our business, financial condition and results of operations.

In general, litigation in the industries in which we operate, including class actions that seek substantial damages, arises with increasing frequency. Enforcement of environmental and health and safety requirements is also frequent. Such proceedings are invariably expensive, regardless of the merit of the plaintiffs' or prosecutors' claims. We may be named as a defendant in the future, and there can be no assurance, irrespective of the merit of such future actions, that we will not be required to make substantial settlement payments in the future. Further, a significant portion of our business is conducted in California which is one of the most highly regulated and litigious states in the country. Therefore, our potential exposure to losses and expenses due to new laws, regulations or litigation may be greater than companies with a less significant California presence.

The nature of our business also subjects us to property damage and product liability claims, especially in connection with our modular buildings and tank and box rental businesses. Although we maintain commercially reasonable liability coverage, an unusually large property damage or product liability claim or a series of claims could exceed our insurance coverage or result in damage to our reputation.

Conducting our routine businesses exposes us to risk of litigation from employees, vendors and other third parties.

We are subject to claims arising from disputes with employees, vendors and other third parties in the normal course of business; these risks may be difficult to assess or quantify and their existence and magnitude may remain unknown for substantial periods of time. If the plaintiffs in any suits against us were to successfully prosecute their claims, or if we were to settle such suits by making significant payments to the plaintiffs, our operating results and financial condition would be harmed. Even if the outcome of a claim

proves favorable to us, litigation can be time consuming and costly and may divert management resources. In addition, our organizational documents require us to indemnify our senior executives to the maximum extent permitted by California law. If our senior executives were named in any lawsuit, our indemnification obligations could magnify the costs of these suits.

Our debt instruments contain covenants that restrict or prohibit our ability to enter into a variety of transactions and may limit our ability to finance future operations or capital needs.

The agreements governing our 5.08% senior notes due in 2011 and our unsecured revolving line of credit facility contain various covenants that may limit our discretion in operating our business. In particular, we are limited in our ability to merge, consolidate, reorganize or transfer substantially all of our assets, make investments, pay dividends or distributions, redeem or repurchase stock, change the nature of our business, enter into transactions with affiliates, incur indebtedness and create liens on our assets to secure debt. In addition, we are required to meet certain financial covenants. These restrictions could limit our ability to obtain future financing, make strategic acquisitions or needed capital expenditures, withstand economic downturns in our business or the economy in general, conduct operations or otherwise take advantage of business opportunities that may arise.

A failure to comply with the restrictions contained in the agreements could lead to an event of default, which could result in an acceleration of our indebtedness. In the event of an acceleration, we may not have or be able to obtain sufficient funds to refinance our indebtedness or make the required accelerated payments. If we default on our indebtedness, our business financial condition and results of operation could be materially and adversely affected.

The majority of our indebtedness is subject to variable interest rates, which makes us vulnerable to increases in interest rates.

Our indebtedness exposes us to interest rate increases because the majority of our indebtedness is subject to variable rates. At present, we do not have any derivative financial instruments such as interest rate swaps or hedges to mitigate interest rate variability. The interest rates under our credit facilities will be reset at varying periods. These interest rate adjustments could expose our operating results and cash flows to periodic fluctuations. Our annual debt service obligations will increase by approximately \$2.7 million per year for each 1% increase in the average interest rate we pay, based on the \$269.5 million balance of variable rate debt outstanding at December 31, 2008. If interest rates rise in the future, and particularly, if they rise significantly, our income will be negatively affected.

Our effective tax rate may change and become less predictable as our business expands.

We continue to consider expansion opportunities domestically and internationally for our rental businesses, such as our organic expansion of our modular business in Florida, North Carolina, Georgia, Maryland and Virginia, our expansion through acquisition of TRS, recent expansion into the portable storage and environmental test equipment businesses and in 2008 our expansion into the liquid and solid containment business through the acquisition of Adler Tank Rentals. Since the Company's effective tax rate depends on business levels, personnel and assets located in various jurisdictions, further expansion into new markets or acquisitions may change the effective tax rate in the future and may make it and consequently our earnings less predictable going forward. In addition, the enactment of tax law changes by federal and state taxing authorities may impact the Company's current period tax provision and its deferred tax liabilities.

Changes in financial accounting standards may cause lower than expected operating results and affect our reported results of operations.

Changes in accounting standards and their application may have a significant effect on our reported results on a going forward basis and may also affect the recording and disclosure of previously reported transactions. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business.

Failure to comply with internal control attestation requirements could lead to loss of public confidence in our financial statements and negatively impact our stock price.

As a public reporting company, we are required to comply with the Sarbanes-Oxley Act of 2002, including Section 404, and the related rules and regulations of the Securities and Exchange Commission, including expanded disclosures and accelerated reporting requirements. Compliance with Section 404 and other requirements has and will continue to increase our costs and require additional management resources. We may need to continue to implement additional finance and accounting systems, procedures and controls to satisfy new reporting requirements. While we completed a favorable assessment as to the adequacy of our internal controls over financial reporting for our fiscal year ended December 31, 2008, there is no assurance that future assessments of the adequacy of our internal controls over financial reporting will be favorable. If we are unable to obtain future unqualified reports as to the effectiveness of our internal controls over financial reporting, investors could lose confidence in the reliability of our internal controls over financial reporting, which could adversely affect our stock price.

If we suffer loss to our facilities, equipment or distribution system due to catastrophe, our operations could be seriously harmed.

Our facilities, rental equipment and distribution systems may be subject to catastrophic loss due to fire, flood, hurricane, earthquake, terrorism or other natural or man-made disasters. In particular, we have our headquarters, three operating facilities, and rental equipment in California, which are located in areas with above average seismic activity and could be subject to a catastrophic loss caused by an earthquake. Our rental equipment and facilities in Texas, Florida, North Carolina and Georgia are located in areas subject to hurricanes and other tropical storms. In addition to customers' insurance on rented equipment, we carry property insurance on our rental equipment in inventory and operating facilities as well as business interruption insurance. We believe our insurance policies are adequate with the appropriate limits and deductibles to mitigate the potential loss exposure of our business. We do not have financial reserves for policy deductibles and we do have exclusions under our insurance policies that are customary for our industry, including earthquakes, flood and terrorism. If any of our facilities or a significant amount of our rental equipment were to experience a catastrophic loss, it could disrupt our operations, delay orders, shipments and revenue recognition and result in expenses to repair or replace the damaged rental equipment and facility not covered by insurance.

SPECIFIC RISKS RELATED TO OUR RELOCATABLE MODULAR BUILDINGS BUSINESS SEGMENT:

A significant reduction of, or delay in, funding to public schools could cause the demand for our modular classroom units to decline, which could result in a reduction in our revenues and profitability.

Rentals and sales of modular buildings to public school districts for use as classrooms, restroom buildings, and administrative offices for kindergarten through grade twelve represent a significant portion of Mobile Modular's rental and sales revenues. Funding for public school facilities is derived from a variety of sources including the passage of both statewide and local facility bond measures, developer fees and various taxes levied to support school operating budgets. Many of these funding sources are subject to financial and political considerations, which vary from district to district and are not tied to demand. Historically, we have benefited from the passage of facility bond measures and believe these are essential to our business.

To the extent public school districts' funding is reduced for the rental and purchase of modular buildings, our business could be harmed and our results of operations negatively impacted. We believe that interruptions or delays in the passage of facility bond measures or completion of state budgets, a lack or insufficient amount of state funding, a significant reduction of funding to public schools, or changes negatively impacting enrollment may reduce the rental and sale demand for our educational products. Any reductions in funding available to the school districts from the states in which we do business may cause school districts to experience budget shortfalls and to reduce their demand for our products despite growing student populations, class size reduction initiatives and modernization and reconstruction project needs, which could reduce our revenues and operating income and consequently have a material adverse effect on the Company's financial condition.

Public policies that create demand for our products and services may change.

In California a law was enacted in 1996 to provide funding for school districts for the reduction of class sizes for kindergarten through third grade. In Florida a state constitutional amendment was passed in 2002 to limit the number of students that may be grouped in a single classroom for pre-kindergarten through grade twelve. School districts with class sizes in excess of state limits have

been and continue to be a significant source of our demand for modular classrooms. Further, in California, efforts to address aging infrastructure and deferred maintenance have resulted in a significant increase in modernization and reconstruction projects by public school districts including seismic retrofitting, asbestos abatement and various building repairs and upgrades. If educational priorities and policies shift away from class-size reduction or modernization and reconstruction projects, demand for our products and services may decline, not grow as quickly as or reach the levels that we anticipate. Significant equipment returns may result in lower utilization until equipment can be redeployed or sold, which may cause rental rates to decline and negatively affect our revenues and operating income.

Failure to comply with applicable regulations could harm our business and financial condition, resulting in lower operating results and cash flows.

Similar to conventionally constructed buildings, the modular building industry, including the manufacturers and lessors of portable classrooms, are subject to regulations by multiple governmental agencies at the federal, state and local level relating to environmental, zoning, health, safety and transportation matters, among other matters. Failure to comply with these laws or regulations could impact our business or harm our reputation and result in higher capital or operating expenditures or the imposition of penalties or restrictions on our operations.

As with conventional construction, typically new codes and regulations are not retroactively applied. Nonetheless, new governmental regulations in these or other areas may increase our acquisition cost of new rental equipment, limit the use of or make obsolete some of our existing equipment, or increase our general and administrative costs.

Building codes are generally reviewed every three years. All aspects of a given code are subject to change including but not limited to such items as structural specifications for earthquake safety, energy efficiency and environmental standards, fire and life safety, transportation, lighting and noise limits. On occasion, state agencies have undertaken studies of indoor air quality and noise levels with a focus on permanent and modular classrooms. These results could impact our existing modular equipment, and affect the future construction of our modular product.

Compliance with building codes and regulations entail a certain amount of risk as state and local government authorities do not necessarily interpret building codes and regulations in a consistent manner, particularly where applicable regulations may be unclear and subject to interpretation. These regulations often provide broad discretion to governmental authorities that oversee these matters, which can result in unanticipated delays or increases in the cost of compliance in particular markets. The construction and modular industries have developed many “best practices” which are constantly evolving. Some of our peers and competitors may adopt practices that are more or less stringent than the Company’s. When, and if, regulatory standards are clarified, the effect of the clarification may be to impose rules on our business and practices retroactively, at which time, we may not be in compliance with such regulations and we may be required to incur costly remediation. If we are unable to pass these increased costs on to our customers, our profitability, operating cash flows and financial condition could be negatively impacted.

Our planned expansions of our modular operations into new markets will affect our operating results.

We have established modular operations in California, Texas and Florida and launched operations in North Carolina and Georgia in late 2007 and in Maryland and Virginia during 2008. We have identified several U.S. markets that we believe will be attractive long-term opportunities for our educational and commercial modular business and continue to consider opportunities for growth of our modular business. There are risks inherent in the undertaking of such expansion, including the risk of revenue from the business in these markets not meeting our expectations, higher than expected costs in entering these new markets, risk associated with compliance with applicable state and local laws and regulations, response by competitors and unanticipated consequences of expansion. In addition, expansion in new markets may be affected by local economic and market conditions. Expansion of our operations into these new markets will require a significant amount of attention from our management, a commitment of financial resources and will require us to add qualified management in these markets.

We are subject to laws and regulations governing government contracts. These laws and regulations make these government contracts more favorable to government entities than other third parties and any changes in these laws and regulations, or the failure to comply with these laws and regulations could harm our business.

We have agreements relating to the sale of our products to government entities and, as a result, we are subject to various statutes and regulations that apply to companies doing business with the government. The laws governing government contracts can differ from the laws governing private contracts. For example, many government contracts contain pricing terms and conditions that are not applicable to private contracts such as clauses that allow government entities not to perform on contractual obligations in the case of a lack of fiscal funding. Also, in the educational markets we serve, we are able to utilize “piggyback” contracts in marketing our products and services and ultimately to book business. The term “piggyback contract” refers to contracts for portable classrooms or other products entered into by public school districts following a formal bid process that allows for the use of the same contract terms and conditions with the successful vendor by other public school districts. As a result, “piggyback” contracts allow us to more readily book orders from our government customers, primarily public school districts, and to reduce the administrative expense associated with booking these orders. The governmental statutes and regulations that allow for use of “piggyback” contracts are subject to change or elimination in their entirety. A change in the manner of use or the elimination of piggyback contracts would likely negatively impact our ability to book new business from these government customers and could cause our administrative expenses related to processing these orders to increase significantly. In addition, any failure to comply with these laws and regulations might result in administrative penalties or even in the suspension of these contracts and as a result, the loss of the related revenues which would harm our business and results from operations.

Seasonality of our educational business may have adverse consequences for our business.

A significant portion of the modular sale and rental revenues are derived from the educational market. Typically, during each calendar year, our highest number of classrooms are shipped for rental and sale orders during the second and third quarters for delivery and installation prior to the start of the upcoming school year. The majority of classrooms shipped in the second and third quarters have rental start dates during the third quarter, thereby making the fourth quarter the first full quarter of rental revenues recognized for these transactions. These factors may impact the quarterly revenues and earnings of each year’s second, third and fourth quarters.

We face strong competition in our modular building markets.

The modular building leasing industry is highly competitive in our states of operation and we expect it to remain so. The competitive market in which we operate may prevent us from raising rental fees or sales prices to pass any increased costs on to our customers. We compete on the basis of a number of factors, including equipment availability, quality, price, service, reliability, appearance, functionality and delivery terms. We believe we may experience pricing pressures in our areas of operation in the future as some of our competitors seek to obtain market share by reducing prices.

Some of our larger national competitors in the modular building leasing industry, notably Williams Scotsman International, Inc. and Modspace, have a greater range of products and services, greater financial and marketing resources, larger customer bases, and greater name recognition than we have. These larger competitors may be better able to respond to changes in the relocatable modular building market, to finance acquisitions, to fund internal growth and to compete for market share, any of which could harm our business.

We may not be able to quickly redeploy modular buildings returning from leases.

As of December 31, 2008, 60% of our modular portfolio had equipment on rent for periods exceeding the original committed term. Generally, when a customer continues to rent the modular units beyond the contractual term, the equipment rents on a month-to-month basis. If a significant number of our rented modular units were returned during a short period of time, particularly those units that are rented on a month-to-month basis, a large supply of units would need to be remarketed. Our failure to effectively remarket a large influx of units returning from leases could negatively affect our financial performance and our ability to continue expanding our rental fleet.

Significant increases in raw material and labor costs could increase our acquisition cost of new modular rental units and repair and maintenance costs of our fleet, which would increase our operating costs and harm our profitability.

We incur labor costs and purchase raw materials, including lumber, siding and roofing and other products to perform periodic repairs, modifications and refurbishments to maintain physical conditions of our modular units. The volume, timing and mix of maintenance and repair work on our rental equipment may vary quarter-to-quarter and year-to-year. Generally, increases in labor and raw material costs will also increase the acquisition cost of new modular units and increase the repair and maintenance costs of our fleet. We also maintain a fleet of service trucks and use subcontractor companies for delivery, set-up, return delivery and dismantle of modulars for our customers. We rely on our subcontractor service companies to meet customer demands for timely shipment and return, and the loss or inadequate number of subcontractor service companies may cause prices to increase, while negatively impacting our reputation and operating performance. During periods of rising prices for labor, raw materials or fuel, and in particular, when the prices increase rapidly or to levels significantly higher than normal, we may incur significant increases in our acquisition costs for new modular units and incur higher operating costs that we may not be able to recoup from our customers, which would reduce our profitability.

Failure by third parties to manufacture our products timely or properly may harm our reputation and financial condition.

We are dependent on third parties to manufacture our products even though we are able to purchase products from a variety of third-party suppliers. Mobile Modular purchases new modulars from various manufacturers who build to Mobile Modular's design specifications. With the exception of Enviroplex, none of the principal suppliers are affiliated with the Company. During 2008, Mobile Modular purchased 21% of its modular product from one manufacturer. The Company believes that the loss of its primary manufacturer of modulars could have an adverse effect on its operations since Mobile Modular could experience higher prices and longer delivery lead times for modular product until other manufacturers were able to increase their production capacity.

Failure to properly design, manufacture, repair and maintain the modular product may result in impairment charges, potential litigation and reduction of our operating results and cash flows.

We estimate the useful life of the modular product to be 18 years with a residual value of 50%. However, proper design, manufacture, repairs and maintenance of the modular product during our ownership is required for the product to reach the estimated useful life of 18 years with a residual value of 50%. If we do not appropriately manage the design, manufacture, repair and maintenance of our modular product, or otherwise, delay or defer such repair or maintenance, we may be required to incur impairment charges for equipment that is beyond economic repair or incur significant capital expenditures to acquire new modular product to serve demand. In addition, these failures may result in personal injury or property damage claims, including claims based on presence of mold, and termination of leases or contracts by customers. Costs of contract performance, potential litigation, and profits lost from termination could accordingly reduce our future operating results and cash flows.

Our warranty costs may increase.

Sales of new relocatable modular buildings not manufactured by us are typically covered by warranties provided by the manufacturer of the products sold. We provide ninety-day warranties on certain modular sales of used rental units and one-year warranties on equipment manufactured by our Enviroplex subsidiary. Historically, our warranty costs have not been significant, and we monitor the quality of our products closely. If a defect were to arise in the installation of our equipment at the customer's facilities or in the equipment acquired from our suppliers or by our Enviroplex subsidiary, we may experience increased warranty claims. Such claims could disrupt our sales operations, damage our reputation and require costly repairs or other remedies, negatively impacting revenues and operating income.

SPECIFIC RISKS RELATED TO OUR ELECTRONIC TEST EQUIPMENT BUSINESS SEGMENT:

Market risk and cyclical downturns in the industries using test equipment may result in periods of low demand for our product resulting in excess inventory, impairment charges and reduction of our operating results and cash flows.

TRS-RenTelco's revenues are derived from the rental and sale of general purpose, communications and environmental test equipment to a broad range of companies, from Fortune 500 to middle and smaller market companies, in the aerospace, defense, communications, manufacturing and semiconductor industries. Electronic test equipment rental and sales revenues are primarily

affected by the business activity within these industries related to research and development, manufacturing, and communication infrastructure and maintenance. Historically, these industries have been cyclical and have experienced periodic downturns, which have a material adverse impact on the industry's demand for equipment, including the electronic test equipment rented by us. We experienced this in 2002, as a result of a significant and prolonged downturn in the telecommunications industry, and recorded non-cash impairment charges of \$24.1 million resulting from the depressed and low projected demand for the rental products coupled with high inventory levels, especially communications equipment. We expect the current U.S. recession and global economic downturn will have an adverse effect on these industries' demand for equipment in 2009, including the electronic test equipment rented by us, resulting in a reduction of our operating results and cash flows. In addition, the severity and length of any downturn in an industry may also affect overall access to capital, which could adversely affect our customers. During periods of reduced and declining demand for test equipment, we are exposed to additional receivable risk from non-payment and may need to rapidly align our cost structure with prevailing market conditions.

Seasonality of our electronic test equipment business may impact quarterly results.

Generally, rental activity declines in the fourth quarter month of December and the first quarter months of January and February. These months may have lower rental activity due to holiday closures, particularly by larger companies, inclement weather and its impact on various field related communications equipment rentals, and companies' operational recovery from holiday closures which may impact the start-up of new projects coming online in the first quarter. These seasonal factors may impact quarterly results in each year's first and fourth quarter.

Our rental test equipment may become obsolete, which could result in an impairment charge or may no longer be supported by a manufacturer.

Electronic test equipment is characterized by changing technology and evolving industry standards that may render our existing equipment obsolete through new product introductions, or enhancements, before the end of its anticipated useful life, causing us to incur impairment charges. We must anticipate and keep pace with the introduction of new hardware, software and networking technologies and acquire equipment that will be marketable to our current and prospective customers.

Additionally, some manufacturers of our equipment may be acquired or cease to exist, resulting in a future lack of support for equipment purchased from those manufacturers. This could result in the remaining useful life to shorten, causing us to incur an impairment charge. We monitor our manufacturers' capacity to support their products, the introduction of new technologies, and acquire equipment that will be marketable to our current and prospective customers, however, the economic downturn could result in unexpected bankruptcies or reduced support from our manufacturers. Failure to properly select, manage and respond to the technological needs of our customers and changes of our products through their technology life cycle may cause certain electronic test equipment to become obsolete, resulting in impairment charges and may negatively impact operating results and cash flows.

If we do not effectively compete in the rental equipment market, our operating results will be materially and adversely affected.

The electronic test equipment rental business is characterized by intense competition from several competitors, including Electro Rent Corporation, Telogy and Continental Resources, some of which may have access to greater financial and other resources than we do. Although no single competitor holds a dominant market share, we face intensifying competition from these established entities and new entrants in the market. We believe that we anticipate and keep pace with the introduction of new products and acquire equipment that will be marketable to our current and prospective customers. We compete on the basis of a number of factors, including product availability, price, service and reliability. Some of our competitors may offer similar equipment for lease, rental or sale at lower prices and may offer more extensive servicing, or financing options. Failure to adequately forecast the adoption of, and demand for, new or existing products may cause us not to meet our customers' equipment requirements and may materially and adversely affect our operating results.

If we are not able to obtain equipment at favorable rates, there could be a material adverse effect on our operating results.

The majority of our rental equipment portfolio is comprised of general-purpose test and measurement instruments purchased from leading manufacturers such as Agilent Technologies and Tektronix, a division of Danaher Corporation. We depend on purchasing equipment from these manufacturers and suppliers for use as our rental equipment. If, in the future, we are not able to

purchase necessary equipment from one or more of these suppliers on favorable terms, we may not be able to meet our customers' demands in a timely manner or for a rental rate that generates a profit. If this should occur, we may not be able to secure necessary equipment from an alternative source on acceptable terms and our business may be materially and adversely affected.

If we are not able to anticipate and mitigate the risks associated with operating internationally, there could be a material adverse effect on our operating results.

Currently, total foreign country customers and operations account for less than 10% of the Company's revenues and long-lived assets. In recent years some of our customers have expanded their international operations faster than domestic operations, and this trend may continue. Over time, we anticipate the amount of international business may increase if our focus on international market opportunities continues. Operating in foreign countries subjects the Company to additional risks, any of which may adversely impact our future operating results, including:

- international political, economic and legal conditions including tariffs and trade barriers;
- our ability to comply with customs, import/export and other trade compliance regulations of the countries in which we do business, together with any unexpected changes in such regulations;
- greater difficulty in our ability to recover rental equipment and obtain payment of the related trade receivables;
- difficulties in attracting and retaining staff and business partners to operate internationally;
- language and cultural barriers;
- seasonal reductions in business activities in the countries where our international customers are located;
- difficulty with the integration of foreign operations;
- longer payment cycles;
- currency fluctuations; and
- potential adverse tax consequences.

Unfavorable currency exchange rates may negatively impact our financial results in U.S. dollar terms.

We receive revenues in Canadian dollars from our business activities in Canada. Conducting business in currencies other than U.S. dollars subjects us to fluctuations in currency exchange rates. If the currency exchange rates change unfavorably, the value of net receivables we receive in foreign currencies and later convert to U.S. dollars after the unfavorable change would be diminished. This could have a negative impact on our reported operating results. We currently do not engage in hedging strategies to mitigate this risk.

SPECIFIC RISKS RELATED TO OUR LIQUID AND SOLID CONTAINMENT TANKS AND BOXES BUSINESS SEGMENT:

We may be brought into tort or environmental litigation or held responsible for cleanup of spills if an accident occurs in the use of our rental products or the customer fails to perform, which could materially adversely affect our business, future operating results or financial position.

Our rental tanks and boxes are used by our customers to store non hazardous and certain hazardous liquids on the customer's site. Our customers are generally responsible for proper operation of our tank and box rental equipment while on rent and returning a cleaned and undamaged container upon completion of use, but exceptions may be granted and we cannot always assure that these responsibilities are fully met in all cases. Although, we require the customer to carry commercial general liability insurance in a minimum amount of \$5,000,000, such policies often contain pollution exclusions and other exceptions and regardless we cannot be sure this amount will always be sufficient. In addition, if an accident were to occur involving our rental equipment or a spill of substances were to occur when the tank or box was in transport or on rent with our customer, a claim could be made against us as owner of the rental equipment.

In the event of a spill or accident, we may be brought into a lawsuit or enforcement action by either our customer or a third party on numerous potential grounds, including that an inherent flaw in a tank or box contributed to the accident or that the tank had suffered some undiscovered harm from a previous customer's prior use. In the event of a spill caused by our customers, we may be held responsible for cleanup under environmental laws and regulations concerning obligations of suppliers of rental products to effect remediation. In addition, applicable environmental laws and regulations may impose liability on us for conduct of third parties, or for actions that complied with applicable regulations when taken, regardless of negligence or fault. Substantial damage awards have also been made in certain jurisdictions against lessors of industrial equipment based claims of personal injury, property damage, and resource damage claims caused by the use of various products. While we try to take reasonable precautions that our rental equipment is in good and safe condition prior to rental and carry insurance to protect against certain risks of loss or accidents, liability could adversely impact our profitability.

The liquid and solid storage and containment rental industry is highly competitive, and competitive pressures could lead to a decrease in our market share or in rental rates and our ability to sell equipment at favorable prices.

The liquid and solid storage and containment rental industry is highly competitive. We compete against national, regional and local companies, including BakerCorp and Rain For Rent, both of which are significantly larger than we are and both of which have greater financial and marketing resources than we have. Some of our competitors also have longer operating histories, lower cost basis of rental equipment, lower cost structures and more established relationships with equipment manufacturers than we have. In addition, certain of our competitors are more geographically diverse than we are and have greater name recognition among customers than we do. As a result, our competitors that have these advantages may be better able to attract customers and provide their products and services at lower rental rates. We may in the future encounter increased competition in the markets that we serve from existing competitors or from new market entrants.

We believe that equipment quality, service levels, rental rates and fleet size are key competitive factors in the liquid and solid containment storage rental industry. From time to time, we or our competitors may attempt to compete aggressively by lowering rental rates or prices. Competitive pressures could adversely affect our revenues and operating results by decreasing our market share or depressing the rental rates. To the extent we lower rental rates or increase our fleet in order to retain or increase market share, our operating margins would be adversely impacted. In addition, we may not be able to match a larger competitor's price reductions or fleet investment because of its greater financial resources, all of which could adversely impact our operating results through a combination of a decrease in our market share, revenues and decreased operating income.

Market risk and cyclical downturns in the industries using tanks and boxes may result in periods of low demand for our product resulting in excess inventory, impairment charges and reduction of our operating results and cash flows.

Adler Tanks' revenues are derived from the rental of tanks and boxes to companies involved in oil & gas exploration and refinement, environmental remediation & wastewater/groundwater treatment, infrastructure construction and various industrial services, among others. We expect tank and box rental revenues will primarily be affected by the business activity within these industries. Historically, these industries have been cyclical and have experienced periodic downturns, which have a material adverse impact on the industry's demand for equipment, including the tanks and boxes rented by us. Lower oil prices may have an adverse effect on our liquid and solid containment tank and boxes business. In addition, the recession in the U.S. may negatively impact infrastructure construction and industrial activity, which may also adversely affect our business.

Significant increases in raw material, the price of fuel, and labor costs could increase our acquisition and operating costs of rental equipment, which would increase operating costs and decrease profitability.

Increases in raw material costs such as steel and labor to manufacture liquid and solid storage containment tanks and boxes would increase the cost of acquiring new equipment. These price increases could materially adversely impact our financial condition and results of operations if we were not able to recoup these increases through higher rental revenues. In addition, a significant amount of revenues are generated from the transport of rental equipment to and from customers. We own delivery trucks, employ drivers and utilize subcontractors to provide these services. The price of fuel can be unpredictable and beyond our control. We have not been able to mitigate the expense impact of higher fuel costs through surcharges, and do not intend to do so in the future. During periods of rising fuel and labor costs, and in particular when prices increase rapidly, we may not be able to recoup these costs from our customers, which would reduce our profitability.

Failure by third parties to manufacture our products timely or properly may harm our ability to meet customer demand and harm our financial condition.

We are dependent on a variety of third party companies to manufacture equipment to be used in our rental fleet. With the exception of Sabre Manufacturing, LLC, which is owned by the President of our Adler Tanks division, none of the manufacturers are affiliated with the Company. In some cases, we may not be able to procure equipment on a timely basis to the extent that manufacturers for the quantities of equipment we need are not able to produce sufficient inventory on schedules that meet our delivery requirements. In particular, we have seen weather-related slowdowns of manufacturing activity in New England in past winters. If demand for new equipment increases significantly, especially during a seasonal slowdown, manufacturers may not be able to meet customer orders on a timely basis. As a result, we at times may experience long lead-times for certain types of new equipment and we cannot assure that we will be able to acquire the types or sufficient numbers of the equipment we need to grow our rental fleet as quickly as we would like.

We derive a significant amount of our revenue in our liquid and solid containment tank and boxes business from a limited number of customers, the loss of one or more of which could have an adverse effect on our business.

A significant portion of our revenue in our liquid and solid containment tank and boxes business is generated from a few major customers, including Republic Services, Inc. Although we have some long-term relationships with our major customers, we cannot be assured that our customers will continue to use our products or services or that they will continue to do so at historical levels. The loss of any significant customer, the failure to collect a significant receivable from a significant customer, any material reduction in orders by a significant customer or the cancellation of a significant customer order could significantly reduce our revenues and consequently harm our financial condition and our ability to fund our operations and service our debt.

We may not be able to quickly redeploy equipment returning from leases at equivalent prices.

Many of our rental transactions are short term in nature with pricing established on a daily basis. The length of time that a customer needs equipment can often be difficult to determine and can be impacted by a number of factors such as weather, customer funding and project delays. In addition, our equipment is primarily used in the industrial plant services, environmental remediation, infrastructure construction, and oil and gas industries. Changes in the economic conditions facing any of those industries could result in a significant number of units returning off rent, both for us and our competitors.

If the supply of rental equipment available on the market significantly increases due to units coming off rent, demand for and pricing of our rental products could be adversely impacted. We may experience delays in remarketing our off-rent units to new customers. Actions in these circumstances by our competitors may also depress the market price for rental units. These delays and price pressures would adversely affect equipment utilization levels and total revenues, which would reduce our profitability.

Item 1B. Unresolved Staff Comments

None.

ITEM 2. PROPERTIES.

The Company's four business segments currently conduct operations from the following locations:

Relocatable Modular Buildings—Inventory centers, at which relocatable modular buildings are displayed, refurbished and stored are located in Livermore, California (San Francisco Bay Area), Mira Loma, California (Los Angeles Area), Pasadena, Texas (Houston Area) and in Auburndale, Florida (Orlando Area). The four inventory centers conduct rental and sales operations from multi-modular buildings, serving as working models of the Company's modular product. The Company also has a modular sales office in Charlotte, North Carolina from which the states of North Carolina, Georgia, Virginia and Maryland are served.

Electronics—Electronic test equipment rental and sales operations are conducted from a facility in Grapevine, Texas (Dallas Area) and a sales office in Dollard-des-Ormeaux, Quebec (Montreal, Canada Area).

Liquid and Solid Containment Tanks and Boxes—The Company's liquid and solid containment tank and boxes rental business is headquartered in Newark, New Jersey and operates from branch offices serving the Northeast, Mid-Atlantic, Midwest and Texas.

Enviroplex—The Company's wholly owned subsidiary, Enviroplex, manufactures modular buildings used primarily as classrooms in California 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, 2008.

	<i>Total Acres</i>	<i>Square Footage</i>		
		<i>Office</i>	<i>Warehouse</i>	<i>Total</i>
Corporate Offices				
Livermore, California ¹	—	26,160	—	26,160
Plano, Texas ³	2.6	28,337	10,773	39,110
Relocatable Modular Buildings				
Livermore, California ^{1,2}	137.2	7,680	53,440	61,120
Mira Loma, California	78.5	7,920	45,440	53,360
Pasadena, Texas	50.0	3,868	24,000	27,868
Auburndale, Florida ⁴	122.5	8,400	95,902	104,302
Lake County, Florida ¹¹	15.0	—	—	—
Electronic Test Equipment				
Grapevine, Texas ⁵	—	45,000	71,895	116,895
Dollard-des-Ormeaux, Quebec ⁶	—	12,500	—	12,500
Liquid and Solid Containment Tanks and Boxes				
Newark, New Jersey ⁸	0.8	3,000	7,000	10,000
Hammonton, New Jersey ⁹	1.0	—	—	—
Deerpark, Texas ¹⁰	8.0	3,000	7,000	10,000
Chicago, Illinois ¹¹	4.0	—	—	—
Auburn, Massachusetts ¹¹	5.0	500	—	500
Randolph, Massachusetts ¹¹	5.0	—	—	—
Holland, Massachusetts ¹¹	2.0	—	—	—
Norfolk, Virginia ¹¹	9.0	—	—	—
Enviroplex				
Stockton, California ⁷	14.9	4,551	124,015	128,566
	<u>455.5</u>	<u>150,916</u>	<u>439,465</u>	<u>590,301</u>

¹ The modular building complex in Livermore, California is 33,840 square feet and includes the corporate offices and modulars branch operations.

² Of the 137.2 acres, 2.2 acres with an 8,000 square foot warehouse facility is leased to a third party on a month to month basis, 2.2 acres are leased to a third party through October 2010 and 33.3 acres are undeveloped.

- 3 Of the 39,110 square feet, 19,181 square feet are leased to a third party through February 2011 and 19,929 square feet are leased to a third party through September 2012.
- 4 This modular building complex was completed in July 2008.
- 5 This facility is leased through December 2018.
- 6 This facility is leased through December 2010.
- 7 Within Enviroplex, 6 acres of the 14.9 acres are leased through June 2009 and includes 2,460 square feet of office space and 18,030 feet of warehouse space.
- 8 This facility is leased through December 2013.
- 9 This facility is leased through April 2009.
- 10 This facility is leased through December 2013.
- 11 This facility is leased on a month to month basis

ITEM 3. LEGAL PROCEEDINGS.

The Company is involved in various lawsuits and routine claims arising out of the normal course of its business. The Company maintains insurance coverage for its operations and employees with appropriate aggregate, per occurrence and deductible limits as the Company reasonably determines necessary or prudent with current operations and historical experience. The major policies include coverage for property, general liability, auto, directors and officers, health, and workers' compensation insurances. In the opinion of management, the ultimate amount of liability not covered by insurance, if any, under any pending litigation and claims, individually or in the aggregate, will not have a material adverse effect on the financial position or operating results of the Company.

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

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES.

The Company’s common stock is traded in the NASDAQ Global Select Market under the symbol “MGRC”.

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

	2008				2007			
	4Q	3Q	2Q	1Q	4Q	3Q	2Q	1Q
High	\$ 28.67	\$ 32.46	\$ 28.55	\$ 26.13	\$ 35.96	\$ 36.75	\$ 33.80	\$ 32.17
Low	\$ 14.40	\$ 23.85	\$ 22.85	\$ 16.51	\$ 23.40	\$ 28.76	\$ 29.68	\$ 27.90
Close	\$ 21.36	\$ 28.82	\$ 24.59	\$ 24.11	\$ 25.75	\$ 33.24	\$ 33.69	\$ 31.67
Dividends Declared	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18

As of February 25, 2009, the Company’s common stock was held by approximately 70 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. The total amount of cash dividends paid by the Company in 2008 and 2007 is discussed under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.” Subject to its continued profitability and favorable cash flow, the Company intends to continue the payment of quarterly dividends.

The following table sets forth information with respect to repurchases of shares of the Company’s common stock made by us during the year ended December 31, 2008.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Announced under the Plans or Programs	Maximum Number of Shares that may yet be Purchased under the Plans or Programs
January 1 – January 31	507,793	\$ 23.74	507,793	671,831
February 1 – February 29	235,453	\$ 21.17	235,453	436,378
March 1– March 31	225,500	\$ 21.56	225,500	210,878
Total	968,746	\$22.61	968,746	210,878

In a press release dated May 14, 2008, we announced that our Board of Directors authorized the Company to repurchase an aggregate of 2,000,000 shares of the Company’s outstanding common stock. In connection with this authorization, the board of directors terminated its previous share repurchase authorization announced on March 21, 2003. As of May 14, 2008 there were 210,878 shares that were available to repurchase under that previous authorization, which was replaced by the new 2,000,000 share repurchase authorization. These purchases are made in the over-the-counter market (NASDAQ) and/or through privately negotiated, large block transactions at such repurchase prices as the officers of the Company deem appropriate and desirable on behalf of the Company. All shares repurchased by the Company are canceled and returned to the status of authorized but unissued shares of common stock. The repurchases may be commenced or suspended at any time or from time to time without prior notice depending on prevailing market conditions and other factors. During the year ended December 31, 2008, the Company purchased \$21.9 million of its common stock representing 968,746 shares at an average price of \$22.61 per share. During the year ended December 31, 2007, the Company purchased \$20.2 million of its common stock representing 797,643 shares at an average price of \$25.31 per share. As of February 25, 2009, 2,000,000 shares of the Company’s common stock remain authorized for repurchase.

ITEM 6. SELECTED FINANCIAL DATA.

The following table summarizes the Company's selected financial data for the five years ended December 31, 2008 and should be read in conjunction with the detailed Consolidated Financial Statements and related notes reported in Item 8 below.

Selected Consolidated Financial Data*(in thousands, except per share data)*

	Year Ended December 31,				
	2008	2007	2006	2005	2004
Operations Data					
Revenues					
Rental	\$ 197,236	\$ 185,317	\$ 168,940	\$ 152,316	\$ 120,358
Rental Related Services	34,080	34,713	31,599	26,460	23,347
Rental Operations	231,316	220,030	200,539	178,776	143,705
Sales	70,404	57,829	64,085	90,823	57,162
Other	2,439	2,550	2,442	2,581	1,653
Total Revenues	304,159	280,409	267,066	272,180	202,520
Costs and Expenses					
Direct Costs of Rental Operations					
Depreciation of Rental Equipment	57,115	51,642	45,353	44,178	32,426
Rental Related Services	24,728	24,257	21,830	17,893	15,172
Other	36,661	33,363	33,576	29,292	24,007
Total Direct Costs of Rental Operations	118,504	109,262	100,759	91,363	71,605
Costs of Sales	49,917	40,591	44,481	67,378	43,134
Total Costs of Revenues	168,421	149,853	145,240	158,741	114,739
Gross Profit	135,738	130,556	121,826	113,439	87,781
Selling and Administrative Expenses					
Income from Operations	77,679	80,530	76,327	73,620	54,076
Interest Expense	9,977	10,719	10,760	7,890	5,188
Income before Provision for Income Taxes	67,702	69,811	65,567	65,730	48,888
Provision for Income Taxes	26,498	27,337	24,209	24,649	18,843
Income before Minority Interest	41,204	42,474	41,358	41,081	30,045
Minority Interest in Income of Subsidiary	—	64	280	262	48
Net Income	\$ 41,204	\$ 42,410	\$ 41,078	\$ 40,819	\$ 29,997
Earnings Per Share:					
Basic	\$ 1.74	\$ 1.68	\$ 1.65	\$ 1.65	\$ 1.23
Diluted	\$ 1.72	\$ 1.67	\$ 1.63	\$ 1.61	\$ 1.21
Shares Used in Per Share Calculations:					
Basic	23,740	25,231	24,948	24,668	24,344
Diluted	23,944	25,443	25,231	25,331	24,804
Balance Sheet Data (at period end)					
Rental Equipment, at cost	\$ 805,744	\$ 707,426	\$ 638,501	\$ 562,935	\$ 488,974
Rental Equipment, net	\$ 552,238	\$ 486,014	\$ 451,342	\$ 406,433	\$ 357,788
Total Assets	\$ 784,497	\$ 642,236	\$ 585,542	\$ 543,160	\$ 474,280
Notes Payable	\$ 305,500	\$ 197,729	\$ 165,557	\$ 163,232	\$ 151,888
Shareholders' Equity	\$ 249,880	\$ 244,031	\$ 230,792	\$ 198,469	\$ 166,888
Shares Issued and Outstanding	23,709	24,578	25,090	24,832	24,543
Book Value Per Share	\$ 10.54	\$ 9.93	\$ 9.20	\$ 7.99	\$ 6.80
Debt (Total Liabilities) to Equity	2.14	1.63	1.54	1.73	1.84
Debt (Notes Payable) to Equity	1.22	0.81	0.72	0.82	0.91
Return on Average Equity	17.1%	17.2%	19.2%	22.5%	19.5%
Cash Dividends Declared Per Common Share	\$ 0.80	\$ 0.72	\$ 0.64	\$ 0.56	\$ 0.44

To supplement the Company's financial data presented on a basis consistent with Generally Accepted Accounting Principles ("GAAP"), the Company presents Adjusted EBITDA which is defined by the Company as net income before minority interest in income of subsidiary, interest expense, provision for income taxes, depreciation, amortization, and non-cash stock-based compensation.

The Company presents Adjusted EBITDA as a financial measure as management believes it provides useful information to investors regarding the Company's liquidity and financial condition and because management, as well as the Company's lenders use this measure in evaluating the performance of the Company.

Management uses Adjusted EBITDA as a supplement to GAAP measures to further evaluate the Company's period-to-period operating performance and evaluate the Company's ability to meet future capital expenditure and working capital requirements. Management believes the exclusion of non-cash charges, including stock-based compensation, is useful in measuring the Company's cash available to operations and the performance of the Company. Because the Company finds Adjusted EBITDA useful, the Company believes its investors will also find Adjusted EBITDA useful in evaluating the Company's performance.

Adjusted EBITDA should not be considered in isolation or as a substitute for net income, cash flows, or other consolidated income or cash flow data prepared in accordance with generally accepted accounting principles in the United States or as a measure of the Company's profitability or liquidity. Adjusted EBITDA is not in accordance with or an alternative for GAAP, and may be different from non-GAAP measures used by other companies. Unlike EBITDA which may be used by other companies or investors, Adjusted EBITDA does not include stock-based compensation charges and income from the minority interest in the Company's Enviroplex subsidiary. The Company believes that Adjusted EBITDA is of limited use in that it does not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP and does not accurately reflect real cash flow. In addition, other companies may not use Adjusted EBITDA or may use other non-GAAP measures, limiting the usefulness of Adjusted EBITDA. Therefore, Adjusted EBITDA should only be used to evaluate the Company's results of operations in conjunction with the corresponding GAAP measures. The presentation of Adjusted EBITDA is not meant to be considered in isolation or as a substitute for the most directly comparable GAAP measures. The Company compensates for the limitations of Adjusted EBITDA by relying upon GAAP results to gain a complete picture of the Company's performance. Since Adjusted EBITDA is a non-GAAP financial measure as defined by the Securities and Exchange Commission, the Company includes in the tables below reconciliations of Adjusted EBITDA to the most directly comparable financial measures calculated and presented in accordance with accounting principles generally accepted in the United States.

Reconciliation of Net Income to Adjusted EBITDA

(dollar amounts in thousands)

	Year Ended December 31,				
	2008	2007	2006	2005	2004
Net Income	\$ 41,204	\$ 42,410	\$ 41,078	\$ 40,819	\$29,997
Minority Interest in Income of Subsidiary ¹	—	64	280	262	48
Provision for Income Taxes	26,498	27,337	24,209	24,649	18,843
Interest Expense	9,977	10,719	10,760	7,890	5,188
Income from Operations	77,679	80,530	76,327	73,620	54,076
Depreciation and Amortization	60,416	54,002	47,461	46,433	34,501
Non-Cash Stock-Based Compensation	3,766	3,457	3,125	44	57
Adjusted EBITDA ²	<u>\$141,861</u>	<u>\$137,989</u>	<u>\$126,913</u>	<u>\$120,097</u>	<u>\$88,634</u>
Adjusted EBITDA Margin ³	47%	49%	48%	44%	44%

Reconciliation of Adjusted EBITDA to Net Cash Provided by Operating Activities

(dollar amounts in thousands)

	Year Ended December 31,				
	2008	2007	2006	2005	2004
Adjusted EBITDA ²	\$ 141,861	\$ 137,989	\$ 126,913	\$ 120,097	\$ 88,634
Interest Paid	(10,073)	(10,718)	(10,511)	(7,799)	(5,518)
Income Taxes Paid	(4,581)	(14,424)	(17,248)	(22,871)	(8,355)
Gain on Sale of Rental Equipment	(11,185)	(10,027)	(9,747)	(9,662)	(8,532)
Change in certain assets and liabilities:					
Accounts Receivable, net	(13,341)	(7,227)	4,590	(9,134)	(8,067)
Prepaid Expenses and Other Assets	(2,475)	(1,721)	148	(1,312)	(2,348)
Accounts Payable and Other Liabilities	(575)	(2,076)	7,254	10,223	5,697
Deferred Income	(893)	3,096	(2,280)	2,311	761
Net Cash Provided by Operating Activities	\$ 98,738	\$ 94,892	\$ 99,119	\$ 81,853	\$ 62,272

1 In November of 2007, the Company purchased the remaining minority interest in Enviroplex, a classroom manufacturing business selling modular classrooms in California.

2 Adjusted EBITDA is defined as net income before minority interest in income of subsidiary, interest expense, provision for income taxes, depreciation, amortization, non-cash stock-based compensation and non-cash impairment charges.

3 Adjusted EBITDA Margin is calculated as Adjusted EBITDA divided by total revenues for the period.

Adjusted EBITDA is a component of two restrictive financial covenants for the Company's unsecured line of credit and senior notes. These instruments contain financial covenants requiring the Company to not:

- Permit the consolidated fixed charge coverage ratio of Adjusted EBITDA (as defined) to fixed charges as of the end of any fiscal quarter to be less than 2.00 to 1.00 under the line of credit and the senior notes. At December 31, 2008 the actual ratio for the line of credit and the senior notes was 3.39 and 4.28, respectively.
- Permit the consolidated leverage ratio of funded debt to Adjusted EBITDA (as defined) at any time during any period of four consecutive quarters to be (1) greater than 2.50 to 1.00 under the line of credit and (2) greater than 2.25 to 1.00 under the senior notes. At December 31, 2008 the actual ratio was 2.15.

At December 31, 2008, the Company was in compliance with each of these aforementioned covenants. There are no anticipated trends that the Company is aware of that would indicate non-compliance with these covenants, though, significant deterioration in our financial performance could impact the Company's ability to comply with these covenants.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in this section as well as those discussed under Part I, "Item 1A. Risk Factors", and elsewhere in this document. This discussion should be read together with the financial statements and the related notes thereto set forth in "Item 8. Financial Statements and Supplementary Data."

Results of Operations

General

The Company, incorporated in 1979, is a leading rental provider of relocatable modular buildings for classroom and office space, electronic test equipment for general purpose and communications needs, and liquid and solid containment tanks and boxes. The Company's primary emphasis is on equipment rentals. The Company is comprised of four business segments: (1) Mobile Modular Management Corporation, its modular building rental division ("Mobile Modular"); (2) TRS-RenTelco, its electronic test equipment rental division; (3) Adler Tank Rentals, LLC, its wholly-owned subsidiary providing containment solutions for the storage of hazardous and non-hazardous liquids and solids ("Adler Tanks") and; (4) Enviroplex, Inc., its wholly-owned subsidiary classroom manufacturing business selling modular buildings used primarily as classrooms in California ("Enviroplex"). In 2008, Mobile Modular, TRS-RenTelco and Enviroplex contributed 67%, 28% and 4% of the Company's income before provision for taxes (the equivalent of "pretax income"), respectively, compared to 71%, 28% and 1% for 2007. Adler Tanks was acquired on December 11, 2008 and its pretax income contribution was \$0.5 million in 2008. Although managed as a separate business unit, Enviroplex's revenues, pretax income contribution and total assets are not significant relative to the Company's consolidated financial position.

The Company generates the majority of its revenue from the rental of relocatable modular buildings and electronic test equipment on operating leases with sales of equipment occurring in the normal course of business. The Company requires significant capital outlay to purchase its rental inventory and recovers its investment through rental and sales revenues. Rental revenue and other services negotiated as part of the lease agreement with the customer and related costs are recognized on a straight-line basis over the term of the lease. Sales revenue and related costs are recognized upon delivery and installation of the equipment to the customer. Sales revenues are less predictable and can fluctuate from quarter to quarter and year to year depending on customer demands and requirements. Generally, rental revenues recover the equipment's capitalized cost in a short period of time relative to the equipment's rental life and when sold, sale proceeds recover a high percentage of its capitalized cost.

The Company's growth in rental assets has been primarily funded through internal cash flow and conventional bank financing. The Company presents Adjusted EBITDA as a financial measure as management believes it provides useful information to investors regarding the Company's liquidity and financial condition and because management, as well as the Company's lenders, use this measure in evaluating the performance of the Company.

Management uses Adjusted EBITDA as a supplement to GAAP measures to further evaluate the Company's period-to-period operating performance and evaluate the Company's ability to meet future capital expenditure and working capital requirements. Management believes the exclusion of non-cash charges, including stock-based compensation, is useful in measuring the Company's cash available to operations and the performance of the Company. Because the Company finds Adjusted EBITDA useful, the Company believes its investors will also find Adjusted EBITDA useful in evaluating the Company's performance.

Adjusted EBITDA should not be considered in isolation or as a substitute for net income, cash flows, or other consolidated income or cash flow data prepared in accordance with generally accepted accounting principles in the United States or as a measure of the Company's profitability or liquidity. Adjusted EBITDA is not in accordance with or an alternative to GAAP, and may be different from non-GAAP measures used by other companies. Unlike EBITDA which may be used by other companies or investors, Adjusted EBITDA does not include stock-based compensation charges and income from the minority interest in the Company's Enviroplex subsidiary. The Company believes that Adjusted EBITDA is of limited use in that it does not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP and does not accurately reflect real cash flow. In addition, other companies may not use Adjusted EBITDA or may use other non-GAAP measures, limiting the usefulness of Adjusted EBITDA. Therefore, Adjusted EBITDA should only be used to evaluate the Company's results of operations in conjunction with the

corresponding GAAP measures. The presentation of Adjusted EBITDA is not meant to be considered in isolation or as a substitute to the most directly comparable GAAP measures. The Company compensates for the limitations of Adjusted EBITDA by relying upon GAAP results to gain a complete picture of the Company's performance. (For more information, see "Item 6. Selected Financial Data" above.)

Significant risks of rental equipment ownership are borne by the Company, which include, but are not limited to, uncertainties in the market for its products over the equipment's useful life, use limitations for modular equipment related to updated building codes or legislative changes, technological obsolescence of electronic test equipment, and rental equipment deterioration. The Company believes it mitigates these risks by continued advocacy and collaboration with governing agencies and legislative bodies for ongoing use of its modular product, staying abreast of technology trends in order to make good buy-sell decisions of electronic test equipment, and ongoing investment in repair and maintenance programs to insure all types of rental equipment are in good operating condition.

The Company's modular revenues are primarily affected by demand for classrooms which in turn is affected by shifting and fluctuating school populations, the level of state funding to public schools, the need for temporary classroom space during reconstruction of older schools and changes in policies regarding class size. In particular, public schools in the State of California from time to time experience fluctuations in funding from the state. As a result of any reduced funding, lower expenditures by these schools may result in certain planned programs, including the increase in the number of classrooms such as the Company provides to be postponed or terminated. However, reduced expenditures may in fact result in schools reducing their long-term facility construction projects in favor of using the Company's modular classroom solutions. At this time, the Company can make no assurances as to whether public schools will either reduce or increase their demand for the Company's modular classrooms as a result of fluctuations in funding of public schools by the State of California. Looking forward, the Company believes that any interruption in the passage of facility bonds or contraction of class size reduction programs by public schools may have a material adverse effect on both rental and sales revenues of the Company. (For more information, see "Item 1. Business—Relocatable Modular Buildings—Classroom Rentals and Sales to Public Schools (K-12)" and "Item 1A. Risk Factors—A significant reduction of funding to public schools could cause the demand for our modular classroom units to decline, which could result in a reduction in our revenues and profitability" above.)

Revenues of TRS-RenTelco are derived from the rental and sale of general purpose, communications and environmental test equipment to a broad range of companies, from Fortune 500 to middle and smaller market companies primarily in the electronics, communications, aerospace and defense industries. Electronic test equipment revenues are primarily affected by the business activity within these industries related to research and development, manufacturing, and communication infrastructure installation and maintenance.

Revenues of Adler Tanks are derived from the rental and sale of fixed axle tanks ("tanks"), vacuum containers, dewatering containers and roll off containers, collectively referred to as "boxes". These tanks and boxes are rented to a broad range of industries including oil and gas exploration and field services, refinery, chemical and industrial plant maintenance, environmental remediation and field services, heavy and commercial building construction, marine services, pipeline construction and maintenance, tank terminals services, wastewater treatment, and waste management and landfill services for the containment of hazardous and non-hazardous liquids and solids.

The Company's rental operations include rental and rental related service revenues which comprised approximately 76% of consolidated revenues in 2008 and 77% for the three years ended December 31, 2008. Over the past three years, modulares comprised approximately 60% and electronic test equipment comprised approximately 40% of the cumulative rental operations revenues. The Company's direct costs of rental operations include depreciation of rental equipment, rental related service costs, impairment of rental equipment, and other direct costs of rental operations which include direct labor, supplies, repairs, insurance, property taxes, license fees and amortization of certain lease costs.

The Company also sells modular and electronic test equipment that is new, previously rented, or manufactured by its subsidiary, Enviroplex. The renting and selling of some modular equipment requires a dealer's license, which the Company has obtained from the appropriate governmental agencies. Sales and other revenues of both modular and electronic test equipment have comprised approximately 23% of the Company's consolidated revenues in 2008 and over the last three years. During these three years, modulares comprised approximately 67% and electronics represented approximately 33% of sales and other revenues. The Company's cost of sales includes the carrying value of the equipment sold and the direct costs associated with the equipment sold such as delivery, installation, modifications and related site work.

The rental and sale of modulars to public school districts comprised 30%, 30% and 33% of the Company's consolidated rental and sales revenues for 2008, 2007 and 2006, respectively. (For more information, see "Item 1. Business—Relocatable Modular Buildings—Classroom Rentals and Sales to Public Schools (K-12)" above.)

Selling and administrative expenses primarily include personnel and benefit costs, depreciation and amortization, bad debt expense, advertising costs, and professional service fees. The Company believes that sharing of common facilities, financing, senior management, and operating and accounting systems by all of the Company's operations, results in an efficient use of overhead. Historically, the Company's operating margins have been impacted favorably to the extent its costs and expenses are leveraged over a large installed customer base. However, there can be no assurance as to the Company's ability to maintain a large installed customer base or ability to sustain its historical operating margins.

Recent Developments

In February 2009, the Company announced that the board of directors declared a cash dividend of \$0.22 per common share for the quarter ended March 31, 2009, an increase of 10% over the prior year's comparable quarter.

In November 2008, the Company entered into an Asset Purchase Agreement to purchase substantially all of the assets of the liquid and solid tanks and boxes rental business ("Adler Tanks") of Adler Tank Rentals, LLC. Pursuant to the terms and conditions of the Asset Purchase Agreement, the total purchase price was \$90.8 million, which consisted of approximately \$87.5 million in cash, 40,000 shares of the Company's common stock valued at \$0.7 million, \$1.8 million of certain liabilities relating to Adler Tanks and \$0.8 million of transaction costs. The cash portion of the purchase price is subject to certain post-closing adjustments for net working capital. The transaction was completed on December 11, 2008. The Company financed the acquisition from its \$350 million credit facility. Since December 11, 2008, Adler Tanks' results have been included in the Consolidated Statements of Income, and since that date, Adler Tanks has operated under the name of Adler Tank Rentals.

In August 2008, the Company completed development of 122 acres of land in Polk County, Florida purchased in 2005. This facility is used as a sales office and inventory center to repair, refurbish and store modular rental equipment.

On June 26, 2008, the Company entered into an agreement, for a \$5.0 million line of credit facility related to its cash management services ("Sweep Service Facility"). The Sweep Service Facility matures on the earlier of May 14, 2013, or the date the Company ceases to utilize Union Bank of California, N.A. for its cash management services.

On May 14, 2008, the Company announced that it entered into a new \$350.0 million credit facility with a syndicate of banks. The five-year facility matures on May 14, 2013 and replaces the Company's prior \$190.0 million line of credit.

On May 14, 2008, the Company announced that the board of directors of the Company has authorized the repurchase of up to 2,000,000 shares of the Company's common stock. In connection with its authorization to repurchase 2,000,000 shares, the board of directors terminated its previous share repurchase authorization originally announced in a press release dated March 21, 2003. As of May 14, 2008 there were 210,878 shares that were available to repurchase under that previous authorization. As of February 25, 2009, 2,000,000 shares of the Company's common stock remain authorized for repurchases.

In 2008, the Company began operations in two new areas: (1) the portable storage business under the name Mobile Modular Portable Storage and (2) the environmental test equipment rental business under the name TRS-Environmental. Mobile Modular Portable Storage offers portable storage units and high security portable office units for rent, lease and purchase in Northern California. TRS-Environmental offers a wide variety of environmental monitoring, environmental sampling, and field and safety supplies for rent, lease or purchase. These new initiatives are not significant to the Company's financial statements and results of operations.

In November of 2007, the Company purchased the remaining minority interest in Enviroplex, a classroom manufacturing business selling modular classrooms in California. The stock purchase was for \$3.8 million in cash and increased the Company's ownership of Enviroplex from 81.1% to 100%.

The Company adopted the 2007 Stock Incentive Plan (the “2007 Plan”), effective June 6, 2007, under which 1,875,000 shares of common stock of the Company, plus the number of shares that remained available for grants of awards under the Company’s 1998 Stock Option Plan (the “1998 Plan”) and those shares that become available as a result of forfeiture, termination, or expiration of awards previously granted under the 1998 Plan, are reserved for the grant of awards to its employees, directors and consultants to acquire common stock of the Company. The awards have a maximum term of 10 years. Options under the 2007 Plan are granted at an exercise price of not less than 100% of the fair market value of the Company’s common stock on the date of grant. The 2007 Plan replaced the Company’s 1998 Plan and the 2000 Long-Term Bonus Plan (the “2000 Plan”).

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

	<i>Percent of Revenues</i>				<i>Percent Change</i>	
	<i>Three Years 2008–2006</i>	<i>Year Ended December 31,</i>			<i>2008 over 2007</i>	<i>2007 over 2006</i>
		<i>2008</i>	<i>2007</i>	<i>2006</i>		
Revenues						
Rental	65%	65%	66%	63%	6%	10%
Rental Related Services	12	11	12	12	-2	10
Rental Operations	77	76	78	75	5	10
Sales	23	23	21	24	22	-10
Other	—	1	1	1	-4	4
Total Revenues	100%	100%	100%	100%	8%	5%
Costs and Expenses						
Direct Costs of Rental Operations						
Depreciation of Rental Equipment	18	19	18	17	11	14
Rental Related Services	8	8	9	8	3	11
Other	13	12	12	13	10	-1
Total Direct Costs of Rental Operations	39	39	39	38	9	8
Cost of Sales	15	16	14	16	23	-9
Total Costs	54	55	53	54	13	3
Gross Profit	46	45	47	46	4	7
Selling and Administrative	18	20	18	17	16	10
Income from Operations	28	25	29	29	-4	5
Interest Expense	4	3	4	4	-7	—
Income before Provision for Income Taxes	24	22	25	25	-3	6
Provision for Income Taxes	9	8	10	10	-3	12
Income before Minority Interest	15	14	15	15	-3	3
Minority Interest in Income of Subsidiary	nm	—	nm	nm	nm	nm
Net Income	15%	14%	15%	15%	-3%	3%

nm = not meaningful

**Twelve Months Ended December 31, 2008 Compared to
Twelve Months Ended December 31, 2007**

Overview

Consolidated revenues in 2008 increased \$23.8 million, or 8%, to \$304.2 million from \$280.4 million in 2007. Consolidated net income in 2008 decreased \$1.2 million, or 3%, to \$41.2 million, or \$1.72 per diluted share, from \$42.4 million, or \$1.67 per diluted share, in 2007. The Company's year over year revenue increase was due to higher revenues from rental operations and higher sales revenues. Mobile Modular's rental revenues increased 3% to \$103.2 million, resulting from continued education market demand for classroom product in California and Florida with gross profit on rents increasing 1% to \$65.3 million. TRS-RenTelco's rental revenues increased 10% to \$93.0 million, with gross profit on rents increasing 6% to \$37.5 million. Adler Tanks was acquired on December 11, 2008 and contributed \$1.8 million and \$0.5 million to the consolidated revenues and pretax income, respectively.

For 2008, on a consolidated basis,

- Gross profit increased \$5.2 million, or 4%, to \$135.7 million, with the increase primarily due to higher gross profit on rental and sales revenues by TRS-RenTelco and higher gross profit on sales revenues by Enviroplex, partly offset by lower total gross profit by Mobile Modular.
- Selling and administrative expenses increased \$8.0 million, or 16% to \$58.1 million, with the increase primarily attributable to higher personnel and benefit costs associated with business growth, data processing, depreciation and bad debt expenses.
- Interest expense decreased \$0.7 million, to \$10.0 million from \$10.7 million in 2007 primarily due to lower net average interest rates partly offset by the Company's 26% higher average debt levels in 2008.
- Pretax income contributions were 67% and 28% by Mobile Modular and TRS-RenTelco, respectively, in 2008, compared to 71% and 28%, respectively, in 2007. These results are discussed on a segmental basis below.
- Provision for income taxes was based on an effective tax rate of 39.1% as compared with 39.2% in 2007. Looking forward, the Company estimates that the effective tax rate will remain relatively consistent with the 2008 rate, based on the expected revenue distribution by state. However, there can be no assurance that such expected revenue distribution by state will be achieved, which could cause the Company's effective tax rate to change.
- Adjusted EBITDA increased \$3.9 million, or 3%, to \$141.9 million compared to \$138.0 million in 2007 resulting primarily from improved income from operations of TRS-RenTelco and Enviroplex. Adjusted EBITDA is defined as net income before minority interest in income of subsidiary, interest expense, provision for income taxes, depreciation, amortization and non-cash stock-based compensation. A reconciliation of Adjusted EBITDA to net cash provided by operating activities and net income to Adjusted EBITDA can be found in "Item 6. Selected Financial Data." on page 32.

Mobile Modular

For 2008, Mobile Modular's total revenues decreased \$2.5 million, or 2%, to \$161.1 million due to lower sales and rental related services revenues, partly offset by higher rental revenues during 2008. The revenue decrease and lower gross margin on rental and rental related services revenues resulted in a decrease in pre-tax income of \$3.6 million, or 7%, to \$45.5 million in 2008.

The following table summarizes year-to-year results for each revenue and gross profit category, pretax income, and other selected data.

Mobile Modular—2008 compared to 2007

(dollar amounts in thousands)

	Year Ended December 31,		Increase (Decrease)	
	2008	2007	\$	%
Revenues				
Rental	\$ 103,236	\$ 100,541	\$ 2,695	3%
Rental Related Services	31,484	32,982	(1,498)	-5%
Rental Operations	134,720	133,523	1,197	1%
Sales	25,796	29,349	(3,553)	-12%
Other	543	654	(111)	-17%
Total Revenues	\$ 161,059	\$ 163,526	\$ (2,467)	-2%
Gross Profit				
Rental	\$ 65,278	\$ 64,847	431	1%
Rental Related Services	8,992	10,422	(1,430)	-14%
Rental Operations	74,270	75,269	(999)	-1%
Sales	6,699	7,855	(1,156)	-15%
Other	543	654	(111)	-17%
Total Gross Profit	\$81,512	\$83,778	\$(2,266)	-3%
Pre-tax Income	\$ 45,537	\$ 49,164	\$ (3,627)	-7%
Other Information				
Depreciation of Rental Equipment	\$ 13,311	\$ 12,383	\$ 928	7%
Interest Expense Allocation	\$6,694	\$7,575	\$(881)	-12%
Average Rental Equipment ¹	\$ 461,848	\$ 427,859	\$ 33,989	8%
Average Rental Equipment on Rent ¹	\$376,909	\$352,230	\$24,679	7%
Average Monthly Total Yield ²	1.86%	1.96%		-5%
Average Utilization ³	81.6%	82.3%		-1%
Average Monthly Rental Rate ⁴	2.28%	2.38%		-4%
Period End Rental Equipment ¹	\$ 476,368	\$ 448,771	\$ 27,597	6%
Period End Utilization ³	81.0%	82.8%		-2%
Period End Floors ¹	27,506	26,315	1,191	5%

1 Average and Period End Rental Equipment represents the cost of rental equipment excluding new equipment inventory and accessory equipment. Period End Floors excludes new equipment inventory.

2 Average Monthly Total Yield is calculated by dividing the averages of monthly rental revenues by the cost of rental equipment, for the period.

3 Period End Utilization is calculated by dividing the cost of rental equipment on rent by the total cost of rental equipment excluding new equipment inventory and accessory equipment. Average Utilization for the period is calculated using the average costs of the rental equipment.

4 Average Monthly Rental Rate is calculated by dividing the averages of monthly rental revenues by the cost of rental equipment on rent, for the period.

Mobile Modular's gross profit for 2008 decreased \$2.3 million, or 3%, to \$81.5 million from \$83.8 million in 2007. For the twelve months ended December 31, 2008 compared to the same period in 2007:

- **Gross Profit on Rental Revenues**—Rental revenues increased \$2.7 million, or 3%, compared to 2007, primarily due to the continued education market demand for classrooms, partly offset by decreased demand for commercial buildings. The rental

revenue increase was due to an 8% increase in average rental equipment, partly offset by a 5% lower average total yield due to 1% lower utilization and 4% lower rental rate. As a percentage of rental revenues, depreciation was 13% in 2008 and 12% in 2007, with other direct costs increasing from 23% in 2007 to 24% in 2008, resulting in a gross margin percentage of 63% in 2008 compared to 65% in 2007. The higher other direct costs was primarily due to higher inventory center material costs incurred to prepare used equipment in 2008 compared to 2007. The higher rental revenues, partly offset by lower gross margin percentage resulted in rental gross profit increasing 1%, to \$65.3 million from \$64.8 million in 2007.

- **Gross Profit on Rental Related Services**—Rental related services revenues decreased \$1.5 million, or 5%, compared to 2007. Most of these service revenues are negotiated with the initial lease and are recognized on a straight-line basis with the associated costs over the initial term of the lease. The decrease in rental related services revenues was primarily attributable to the mix of leases and the associated amortization of associated service revenues and lower revenues from services rendered during the lease during 2008 as compared to 2007. The lower revenues combined with lower gross margin percentage of 29% in 2008 compared with 32% in 2007 resulted in rental related services gross profit decreasing \$1.4 million, or 14%, to \$9.0 million from \$10.4 million in 2007.
- **Gross Profit on Sales**—Sales revenues decreased \$3.6 million, or 12%, compared to 2007. Sales occur routinely as a normal part of Mobile Modular's rental business; however, these sales can fluctuate from quarter to quarter and year to year depending on customer requirements, equipment availability and funding. Lower sales volume combined with lower gross margin percentage of 26% in 2008 compared with 27% in 2007, resulted in sales gross profit decreasing \$1.2 million, or 15%, to \$6.7 million from \$7.9 million in 2007.

For 2008, Mobile Modular's selling and administrative expenses increased \$2.2 million, or 8%, to \$29.3 million from \$27.1 million in 2007, primarily attributable to higher personnel and benefit costs to support revenue growth and increased depreciation expense, and represented 28% of rental revenues in 2008 compared with 27% in 2007.

TRS-RenTelco

For 2008, TRS-RenTelco's total revenues increased \$15.6 million, or 15%, to \$121.9 million, primarily due to higher rental and sales revenues. The increase in revenues was offset by higher selling and administrative expenses and lower gross margin on rental and sales revenues, which resulted in a pretax income decrease of 3%, to \$19.1 million from \$19.7 million in 2007.

The following table summarizes year over year results for each revenue and gross profit category, pretax income, and other selected data.

TRS-RenTelco—2008 compared to 2007

(dollar amounts in thousands)

	Year Ended		Increase	
	December 31,		(Decrease)	
	2008	2007	\$	%
Revenues				
Rental	\$ 92,982	\$ 84,776	\$ 8,206	10%
Rental Related Services	2,024	1,731	293	17%
Rental Operations	95,006	86,507	8,499	10%
Sales	24,948	17,831	7,117	40%
Other	1,896	1,896	—	0%
Total Revenues	\$ 121,850	\$ 106,234	\$ 15,616	15%
Gross Profit				
Rental	\$ 37,507	\$ 35,465	\$ 2,042	6%
Rental Related Services	117	34	83	244%
Rental Operations	37,624	35,499	2,125	6%
Sales	8,442	6,247	2,195	35%
Other	1,896	1,896	—	0%
Total Gross Profit	\$ 47,962	\$ 43,642	\$ 4,320	10%
Pre-tax Income	\$ 19,062	\$ 19,730	\$ (668)	-3%
Other Information				
Depreciation of Rental Equipment	\$ 43,599	\$ 39,259	\$ 4,340	11%
Interest Expense Allocation	\$ 3,663	\$ 3,705	\$ (42)	-1%
Average Rental Equipment ¹	\$250,173	\$209,546	\$40,627	19%
Average Rental Equipment on Rent ¹	\$170,388	\$143,032	\$27,356	19%
Average Monthly Total Yield ²	3.10%	3.37%		-8%
Average Utilization ³	68.1%	68.3%		0%
Average Monthly Rental Rate ⁴	4.55%	4.94%		-8%
Period End Rental Equipment ¹	\$255,420	\$230,851	\$24,569	11%
Period End Utilization ³	64.0%	69.3%		-8%

1 Average and Period End Rental Equipment represents the cost of rental equipment excluding accessory equipment.

2 Average Monthly Total Yield is calculated by dividing the averages of monthly rental revenues by the cost of rental equipment, for the period.

3 Period End Utilization is calculated by dividing the cost of rental equipment on rent by the total cost of rental equipment excluding accessory equipment. Average Utilization for the period is calculated using the average costs of the rental equipment.

4 Average Monthly Rental Rate is calculated by dividing the averages of monthly rental revenues by the cost of rental equipment on rent, for the period.

TRS-RenTelco's gross profit for 2008 increased 10%, to \$48.0 million from \$43.6 million in 2007. For the twelve months ended December 31, 2008 compared to the same period in 2007:

- **Gross Profit on Rental Revenues**—Rental revenues increased \$8.2 million, or 10%, compared to 2007, with depreciation expense increasing \$4.3 million, or 11%, resulting in increased gross profit on rental revenues of \$2.0 million, or 6%, to \$37.5 million as compared to the same period in 2007. The increase in gross profit on rental revenues is due to 19% higher average rental equipment as compared to 2007, partly offset by lower average monthly yield as average monthly rental rate decreased 8% in 2008 compared to 2007. The rental rate decrease was due to account penetration and other competitive

pressures, the phasing out of TRS acquired equipment having a lower original cost compared to new equipment purchases and a greater mix of general purpose test equipment that typically has lower rental rates, but longer depreciable lives, compared to communications test equipment. As a percentage of rental revenues, depreciation increased to 47% in 2008 from 46% in 2007, with other direct costs increasing from 12% in 2007 to 13% in 2008, resulting in a gross margin percentage of 40% in 2008 compared to 42% in 2007.

- **Gross Profit on Sales**—Sales revenues increased \$7.1 million, or 40%, compared to 2007. Sales occur routinely as a normal part of TRS-RenTelco's rental business; however, these sales can fluctuate from quarter to quarter and year to year depending on customer requirements, equipment availability and funding. Higher sales volume was partly offset by a lower gross margin percentage, 34% in 2008 compared to 35% in 2007, due to lower gross margin on new equipment sales, resulting in sales gross profit increasing \$2.2 million, or 35%, to \$8.4 million from \$6.2 million in 2007.

For 2008, TRS-RenTelco's selling and administrative expenses increased \$5.0 million, or 25%, to \$25.2 million from \$20.2 million in 2007, primarily attributable to higher personnel and benefit costs to support increased revenue levels. Selling and administrative expenses as a percentage of rental revenues were 27% in 2008 and 24% in 2007.

**Twelve Months Ended December 31, 2007 Compared to
Twelve Months Ended December 31, 2006**

Overview

Consolidated revenues in 2007 increased \$13.3 million, or 5%, to \$280.4 million from \$267.1 million in 2006. Consolidated net income in 2007 increased \$1.3 million, or 3%, to \$42.4 million, or \$1.67 per diluted share, from \$41.1 million, or \$1.63 per diluted share, in 2006. The Company's year over year revenue increase was due to higher revenues from rental operations, partly offset by lower sales revenue. Mobile Modular's rental revenues increased 10% to \$100.5 million, resulting from continued education market demand for classroom product in California and Florida with gross profit on rents increasing 14% to \$64.8 million. TRS-RenTelco's rental revenues increased 9% to \$84.8 million, with gross profit on rents increasing 6% to \$35.5 million.

For 2007, on a consolidated basis,

- Gross profit increased \$8.7 million, or 7%, to \$130.6 million, with the increase attributable to improvements in rental operations of both businesses partly offset by lower gross profit on sales.
- Selling and administrative expenses increased \$4.5 million, or 10% to \$50.0 million from \$45.5 million in 2006, with the increase primarily attributable to higher personnel and benefit costs, professional fees and bad debt expense.
- Interest expense decreased \$0.1 million, to \$10.7 million from \$10.8 million in 2006 primarily due to lower net average interest rates partly offset by the Company's 2% higher average debt levels in 2007.
- Pretax income contributions were 71% and 28% by Mobile Modular and TRS-RenTelco, respectively, in 2007, compared to 66% and 30%, respectively, in 2006. These results are discussed on a segmental basis below.
- Provision for income taxes was based on an effective tax rate of 39.2% as compared with 36.9% in 2006 due primarily to the fiscal 2006 reduction in the Company's deferred tax liability as a result of a franchise tax law change enacted by the state of Texas in May 2006. Looking forward, the Company estimates that the effective tax rate will remain relatively consistent with the 2007 rate, based on the expected revenue distribution by state. However, there can be no assurance that such expected revenue distribution by state will be achieved, which could cause the Company's effective tax rate to change.
- Adjusted EBITDA increased \$11.1 million, or 9%, to \$138.0 million compared to \$126.9 million in 2006 resulting primarily from improved income from rental operations of TRS-RenTelco and Mobile Modular. Adjusted EBITDA is defined as net income before minority interest in income of subsidiary, interest expense, provision for income taxes, depreciation, amortization and non-cash stock-based compensation. A reconciliation of Adjusted EBITDA to net cash provided by operating activities and net income to Adjusted EBITDA can be found in "Item 6. Selected Financial Data." on page 32.

Mobile Modular

For 2007, Mobile Modular's total revenues increased \$7.6 million, or 5%, to \$163.5 million from \$156.0 million in 2006 due to the higher rental and rental related services revenues from the continued educational market demand for classrooms, partly offset by lower sales revenues.

The following table summarizes year-to-year results for each revenue and gross profit category, pretax income, and other selected data.

Mobile Modular—2007 compared to 2006

(dollar amounts in thousands)

	Twelve Months Ended December 31,		Increase (Decrease)	
	2007	2006	\$	%
Revenues				
Rental	\$ 100,541	\$ 91,124	\$ 9,417	10%
Rental Related Services	32,982	29,913	3,069	10%
Rental Operations	133,523	121,037	12,486	10%
Sales	29,349	34,209	(4,860)	-14%
Other	654	729	(75)	-10%
Total Revenues	\$ 163,526	\$ 155,975	\$ 7,551	5%
Gross Profit				
Rental	\$ 64,847	\$ 56,672	\$ 8,175	14%
Rental Related Services	10,422	9,782	640	7%
Rental Operations	75,269	66,454	8,815	13%
Sales	7,855	9,069	(1,214)	-13%
Other	654	729	(75)	-10%
Total Gross Profit	\$ 83,778	\$ 76,252	\$ 7,526	10%
Pre-tax Income	\$ 49,164	\$ 43,439	\$ 5,725	13%
Other Information				
Depreciation of Rental Equipment	\$ 12,383	\$ 10,898	\$ 1,485	14%
Interest Expense Allocation	\$ 7,575	\$ 7,907	\$ (332)	-4%
Average Rental Equipment ¹	\$427,859	\$ 385,630	\$42,229	11%
Average Rental Equipment on Rent ¹	\$352,230	\$ 319,716	\$32,514	10%
Average Monthly Total Yield ²	1.96%	1.97%		-1%
Average Utilization ³	82.3%	82.9%		-1%
Average Monthly Rental Rate ⁴	2.38%	2.38%		0%
Period End Rental Equipment ¹	\$448,771	\$ 410,205	\$38,566	9%
Period End Utilization ³	82.8%	81.4%		2%
Period End Floors ¹	26,315	24,854	1,461	6%

1 Average and Period End Rental Equipment represents the cost of rental equipment excluding new equipment inventory and accessory equipment. Period End Floors excludes new equipment inventory.

2 Average Monthly Total Yield is calculated by dividing the averages of monthly rental revenues by the cost of rental equipment, for the period.

3 Period End Utilization is calculated by dividing the cost of rental equipment on rent by the total cost of rental equipment excluding new equipment inventory and accessory equipment. Average Utilization for the period is calculated using the average costs of the rental equipment.

4 Average Monthly Rental Rate is calculated by dividing the averages of monthly rental revenues by the cost of rental equipment on rent, for the period.

Mobile Modular's gross profit for 2007 increased \$7.5 million, or 10%, to \$83.8 million from \$76.3 million in 2006. For the twelve months ended December 31, 2007 compared to the same period in 2006:

- **Gross Profit on Rental Revenues**—Rental revenues increased \$9.4 million, or 10%, compared to 2006 due to the continued education market demand for classrooms. The rental revenue increase resulted from an 11% increase in average rental

equipment primarily to support the classroom demand, partly offset by a 1% lower average total yield due to 1% lower utilization. As a percentage of rental revenues, depreciation was 12% in 2007 and 2006, with other direct costs decreasing from 26% in 2006 to 23% in 2007, resulting in a gross margin percentage of 65% in 2007 compared to 62% in 2006. The lower other direct costs was primarily due to lower inventory center material costs incurred to prepare used equipment in 2007 compared to 2006. The higher rental revenues and higher gross margin percentage resulted in rental gross profit increasing 14%, to \$64.8 million from \$56.7 million in 2006.

- **Gross Profit on Rental Related Services**—Rental related services revenues increased \$3.1 million, or 10%, compared to 2006, primarily due to the continued demand for classroom buildings. Most of these service revenues are negotiated with the initial lease and are recognized on a straight-line basis with the associated costs over the initial term of the lease. The increase in rental related services revenues was primarily attributable to the mix of leases and associated service revenues within the initial lease term during 2007 as compared to 2006. The higher revenues, partly offset by lower gross margin percentage of 32% in 2007 compared with 33% in 2006 resulted in rental related services gross profit increasing \$0.6 million, or 7%, to \$10.4 million from \$9.8 million in 2006.
- **Gross Profit on Sales**—Sales revenues decreased \$4.9 million, or 14%, compared to 2006. Sales occur routinely as a normal part of Mobile Modular's rental business; however, these sales can fluctuate from quarter to quarter and year to year depending on customer requirements, equipment availability and funding. Lower sales volume, together with comparable gross margin percentage of 27% in 2007 and 2006, resulted in sales gross profit decreasing \$1.2 million, or 13%, to \$7.9 million from \$9.1 million in 2006.

For 2007, Mobile Modular's selling and administrative expenses increased \$2.2 million, or 9%, to \$27.1 million from \$24.9 million in 2006, primarily attributable to higher personnel and benefit costs to support revenue growth, and represented 27% of rental revenues in 2007 and 2006.

TRS-RenTelco

For 2007, TRS-RenTelco's total revenues increased \$7.5 million, or 8%, to \$106.2 million, primarily due to higher rental revenues. The increase in revenues was offset by higher selling and administrative expenses and lower gross margin on rental revenues and sales, which resulted in a pretax income decrease of \$0.1 million, or 1%, to \$19.7 million from \$19.8 million in 2006.

The following table summarizes year over year results for each revenue and gross profit category, pretax income, and other selected data.

TRS-RenTelco—2007 compared to 2006

(dollar amounts in thousands)

	Twelve Months Ended December 31,		Increase (Decrease)	
	2007	2006	\$	%
Revenues				
Rental	\$ 84,776	\$ 77,816	\$ 6,960	9%
Rental Related Services	1,731	1,686	45	3%
Rental Operations	86,507	79,502	7,005	9%
Sales	17,831	17,483	348	2%
Other	1,896	1,713	183	11%
Total Revenues	\$ 106,234	\$ 98,698	\$ 7,536	8%
Gross Profit				
Rental	\$ 35,465	\$ 33,339	\$ 2,126	6%
Rental Related Services	34	(13)	47	362%
Rental Operations	35,499	33,326	2,173	7%
Sales	6,247	6,603	(356)	-5%
Other	1,896	1,713	183	11%
Total Gross Profit	\$ 43,642	\$ 41,642	\$ 2,000	5%
Pre-tax Income	\$ 19,730	\$ 19,827	\$ (97)	0%
Other Information				
Depreciation of Rental Equipment	\$ 39,259	\$ 34,455	\$ 4,804	14%
Interest Expense Allocation	\$ 3,705	\$ 3,385	\$ 320	9%
Average Rental Equipment ¹	\$209,546	\$170,705	\$38,841	23%
Average Rental Equipment on Rent ¹	\$143,032	\$118,798	\$24,234	20%
Average Monthly Total Yield ²	3.37%	3.80%		-11%
Average Utilization ³	68.3%	69.6%		-2%
Average Monthly Rental Rate ⁴	4.94%	5.46%		-10%
Period End Rental Equipment ¹	\$230,851	\$186,085	\$44,766	24%
Period End Utilization ³	69.3%	66.3%		5%

1 Average and Period End Rental Equipment represents the cost of rental equipment excluding accessory equipment.

2 Average Monthly Total Yield is calculated by dividing the averages of monthly rental revenues by the cost of rental equipment, for the period.

3 Period End Utilization is calculated by dividing the cost of rental equipment on rent by the total cost of rental equipment excluding accessory equipment. Average Utilization for the period is calculated using the average costs of the rental equipment.

4 Average Monthly Rental Rate is calculated by dividing the averages of monthly rental revenues by the cost of rental equipment on rent, for the period.

TRS-RenTelco's gross profit for 2007 increased \$2.0 million, or 5%, to \$43.6 million from \$41.6 million in 2006. For the twelve months ended December 31, 2007 compared to the same period in 2006:

- **Gross Profit on Rental Revenues**—Rental revenues increased \$7.0 million, or 9%, compared to 2006, resulting in increased gross profit on rental revenues of \$2.1 million, or 6%, to \$35.5 million as compared to the same period in 2006 due to favorable market demand across a broad range of electronic test equipment product and market segments. The increase in

gross profit on rental revenues is due to 23% higher average rental equipment as compared to 2006, partly offset by lower average monthly yield as utilization of rental equipment decreased 2% from 69.6% in 2006 to 68.3% in 2007 and average monthly rental rate decreased 10% in 2007 compared to 2006. The rental rate decrease was due to account penetration and other competitive pressures, the phasing out of TRS acquired equipment having a lower original cost compared to new equipment purchases and a greater mix of general purpose test equipment that typically has lower rental rates, but longer depreciable lives, compared to communications test equipment. As a percentage of rental revenues, depreciation increased to 46% in 2007 from 44% in 2006, with other direct costs decreasing from 13% in 2006 to 12% in 2007, resulting in a gross margin percentage of 42% in 2007 compared to 43% in 2006.

- **Gross Profit on Sales**—Sales revenues increased \$0.3 million, or 2%, compared to 2006. Sales occur routinely as a normal part of TRS-RenTelco's rental business; however, these sales can fluctuate from quarter to quarter and year to year depending on customer requirements, equipment availability and funding. Higher sales volume was partly offset by a lower gross margin percentage, 35% in 2007 compared to 38% in 2006 resulting in sales gross profit decreasing \$0.4 million, or 5%, to \$6.2 million from \$6.6 million in 2006.

For 2007, TRS-RenTelco's selling and administrative expenses increased \$1.8 million, or 10%, to \$20.2 million from \$18.4 million in 2006, primarily attributable to higher personnel and benefit costs to support increased revenue levels. Selling and administrative expenses as a percentage of rental revenues was 24% in 2007 and 2006.

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 the statements at the beginning of this Item for cautionary information with respect to such forward-looking statements

The Company's rental businesses are capital intensive and generate significant cash flows. Cash flows for the Company in 2008 as compared to 2007 are summarized as follows:

Cash Flows from Operating Activities: The Company's operations provided net cash flow of \$98.7 million for 2008, an increase of 4%, as compared to \$94.9 million in 2007. The \$3.8 million increase in net cash provided by operating activities was primarily due to improved results of operations and lower tax payments in 2008 due to the impact of the 2008 federal stimulus package, compared to 2007, partly offset by increased accounts receivable in 2008 primarily due to higher sales revenues not yet collected in the fourth quarter 2008 compared to 2007 and other balance sheet changes.

Cash Flows from Investing Activities: Net cash used in investing activities was \$168.3 million for 2008 as compared to \$92.6 million in 2007. The \$75.7 million increase in net cash used in investing activities was primarily due to the \$88.3 million cash consideration related to the acquisition of Adler Tanks in 2008. These increases were partly offset by \$8.2 million lower purchases of rental equipment in 2008 compared to 2007.

Cash Flows from Financing Activities: Net cash provided by financing activities was \$65.8 million in 2008, compared to \$2.4 million in 2007. The \$63.4 million increase in net cash provided by financing activities included increased borrowing of \$75.6 million on bank lines of credit in 2008 compared to 2007, primarily to finance the acquisition of Adler Tanks and \$6.7 million increased payments for repurchase of common stock of \$24.4 million in 2008.

Significant capital expenditures are required to maintain and grow the Company's rental assets. During the last three years, the Company has financed its working capital and capital expenditure requirements through cash flow from operations, proceeds from the sale of rental equipment and from bank borrowings. Sales occur routinely as a normal part of the Company's rental business. However, these sales can fluctuate from year to year depending on customer requirements and funding. Although the net proceeds received from sales may fluctuate from year to year, the Company believes its liquidity will not be adversely impacted from lower sales in any given year because it believes it has the ability to increase its bank borrowings and conserve its cash in the future by reducing the amount of cash it uses to purchase rental equipment, pay dividends, or repurchase the Company's common stock.

As the following table indicates, cash flow provided by operating activities and proceeds from sales of rental equipment have been greater than rental equipment purchases over the past three years.

Funding of Rental Asset Growth

(amounts in thousands)

	Year Ended December 31,			Three Year Totals
	2008	2007	2006	
Cash Provided by Operating Activities	\$ 98,738	\$ 94,861	\$ 99,119	\$ 292,718
Proceeds from the Sale of Rental Equipment	29,346	25,694	24,144	79,184
Cash Available for Purchase of Rental Equipment	128,084	120,555	123,263	371,902
Purchases of Rental Equipment	(95,823)	(104,010)	(109,920)	(309,753)
Cash Available for Other Uses	\$32,261	\$16,545	\$13,343	\$62,149

In addition to increasing its rental assets, the Company had other capital expenditures for property, plant and equipment of \$13.6 million in 2008, \$10.5 million in 2007, and \$4.3 million in 2006, and has used cash to provide returns to its shareholders, both in the form of cash dividends and stock repurchases. The Company has in the past 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 from the Board of Directors. Shares repurchased by the Company are canceled and returned to the status of authorized but unissued stock. During the year ended December 31, 2008, the Company purchased \$21.9 million of its common stock representing 968,746 shares at an average price of \$22.61 per share. During the year ended December 31, 2007, the Company purchased \$20.2 million of its common stock representing 797,643 shares at an average price of \$25.31 per share. As of February 25, 2009, 2,000,000 shares of the Company's common stock remain authorized for repurchase. The following table summarizes the dividends paid and the repurchases of the Company's common stock during the past three years.

Dividend and Repurchase Summary

(amounts in thousands, except per share data)

	Year Ended December 31,			Three Year Totals
	2008	2007	2006	
Cash Dividends Paid	\$ 18,568	\$ 17,673	\$ 15,460	\$ 51,701
Shares Repurchased	969	798	23	1,790
Average Price Per Share	\$ 22.61	\$ 25.31	\$ 23.19	\$ 23.81
Aggregate Purchase Price	\$ 21,900	\$ 20,188	\$ 527	\$ 42,615
Total Cash Returned to Shareholders	\$40,468	\$37,861	\$15,987	\$94,316

Revolving Lines of Credit

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. In May 2008, the Company entered into a credit facility with a syndicate of banks (the "Credit Facility"). The Credit Facility provides for a \$350.0 million unsecured revolving credit facility and requires the Company to pay interest determined by reference to the Consolidated Leverage ratio (as defined). In addition, the Company pays a commitment fee on the daily unused portion of the available facility. The Credit Facility matures on May 14, 2013.

In June, 2008, the Company entered into a Credit Facility Letter Agreement with Union Bank of California, N.A. and a Credit Line Note in favor of Union Bank of California, N.A., extending its \$5.0 million line of credit facility related to its cash management services ("Sweep Service Facility"). The Sweep Service Facility matures on the earlier of May 14, 2013, or the date the Company ceases to utilize Union Bank of California, N.A. for its cash management services.

At December 31, 2008, under the Credit Facility and the Sweep Service Facility, the Company had unsecured lines of credit that permit it to borrow up to \$355.0 million of which \$269.5 million was outstanding and had capacity to borrow up to an additional \$85.5 million. The Credit Facility contains financial covenants requiring the Company to not:

- Permit the Consolidated Fixed Charge Coverage Ratio (as defined) as of the end of any fiscal quarter to be less than 2.00 to 1.00 under the Company's credit facilities. At December 31, 2008 the actual ratio was 3.39.

- Permit the Consolidated Asset Coverage Ratio (as defined) as of the end of any fiscal quarter to be less than 1.50 to 1.00 under the Company's credit facilities. At December 31, 2008 the actual ratio was 2.34.
- Permit the Consolidated Leverage Ratio (as defined) at any time during any period of four consecutive quarters to be greater than 2.50 to 1.00 under the Company's credit facilities. At December 31, 2008 the actual ratio was 2.15.

At December 31, 2008, the Company was in compliance with each of the aforementioned covenants. There are no anticipated trends that the Company is aware of that would indicate non-compliance with these covenants, though, significant deterioration in our financial performance could impact the Company's ability to comply with these covenants.

5.08% Senior Notes Due in 2011

In June 2004, the Company completed a private placement of \$60 million of 5.08% senior notes due in 2011. Interest on these notes is due semi-annually in arrears and the principal is due in five equal annual installments, with the second payment made on June 2, 2008 which reduced the principal balance to \$36.0 million. Among other restrictions, the Note Agreement, under which the senior notes were sold, contains financial covenants requiring the Company to not:

- Permit the consolidated fixed charge coverage ratio of EBITDA (as defined) to fixed charges as of the end of any fiscal quarter to be less than 2.00 to 1.00. At December 31, 2008 the actual ratio was 4.28.
- Permit the consolidated leverage ratio of funded debt to EBITDA (as defined) at any time during any period of four consecutive quarters to be greater than 2.25 to 1.00. At December 31, 2008 the actual ratio was 2.15.
- Permit tangible net worth (as defined, which includes the intangible assets of Adler Tanks) calculated as of the last day of each fiscal quarter to be less than the sum of \$127.5 million, plus 50% of net income for such fiscal quarter, plus 90% of the net cash proceeds from the issuance of the Company's capital stock after December 31, 2003, excluding the first \$2.0 million of such proceeds from the exercise of stock options after December 31, 2003. December 31, 2008, such sum was \$236.8 million and the actual tangible net worth (as defined) of the Company was \$248.1 million.

At December 31, 2008, the Company was in compliance with each of the aforementioned covenants. There are no anticipated trends that the Company is aware of that would indicate non-compliance with these covenants, though, significant deterioration in our financial performance could impact the Company's ability to comply with these covenants.

Contractual Obligations and Commitments

The Company's material contractual obligations and commitments consist of \$355.0 million Credit Facility expiring in 2013, \$36.0 million of 5.08% senior notes due in 2011, and operating leases for facilities. The operating lease amounts exclude property taxes and insurance. The table below provides a summary of the Company's contractual obligations and reflects expected payments due as of December 31, 2008 and does not reflect changes that could arise after that date.

Payments Due by Period

(dollar amounts in thousands)

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Revolving Lines of Credit	\$ 269,500	\$ 269,500	\$ —	\$ —	\$ —
5.08% Senior Notes due in 2011	38,743	13,524	25,219	—	—
Operating Leases for Facilities	7,492	967	1,856	1,623	3,046
Total Contractual Obligations	\$315,735	\$283,991	\$27,075	\$1,623	\$3,046

The Company believes that its needs for working capital and capital expenditures through 2008 and beyond will be adequately met by operating cash flow, proceeds from the sale of rental equipment, and bank borrowings.

Please see the Company's Consolidated Statements of Cash Flows on page 60 for a more detailed presentation of the sources and uses of the Company's cash.

Critical Accounting Policies

In response to the Securities and Exchange Commission's Release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," the Company has identified the most critical accounting principles upon which its financial status depends. The Company determined the critical principles by considering accounting policies that involve the most complex or subjective decisions or assessments. The Company has identified its most critical accounting policies as depreciation, maintenance and repair, and impairment of rental equipment. Descriptions of these accounting policies are found in both the notes to the consolidated financial statements and at relevant sections in this management's discussion and analysis.

Depreciation—The estimated useful lives and estimated residual values used for rental equipment are based on the Company's experience as to the economic useful life and sale value of its products. Additionally, to the extent information is publicly available, the Company also compares its depreciation policies to other companies with similar rental products for reasonableness.

The lives and residual values of rental equipment are subject to periodic evaluation. For modular equipment, external factors to consider may include, but are not limited to, changes in legislation, regulations, building codes, local permitting, and supply or demand. Internal factors for modulars may include, but are not limited to, change in equipment specifications, condition of equipment, or maintenance policies. For electronic test equipment, external factors to consider may include, but are not limited to, technological advances, changes in manufacturers' selling prices, and supply or demand. Internal factors for electronic test equipment may include, but are not limited to, change in equipment specifications, condition of equipment or maintenance policies. For liquid and solid containment tanks and boxes, external factors to consider may include, but are not limited to changes in Federal and State legislation, the types of materials stored and the frequency of moves and uses. Internal factors for liquid and solid containment tanks and boxes may include, but are not limited to, change in equipment specifications and maintenance policies.

Changes in useful lives or residual values will impact depreciation expense and any gain or loss from the sale of used equipment. Depending on the magnitude of such changes, the impact on the financial statements could be significant.

Maintenance, Repair and Refurbishment—Maintenance and repairs are expensed as incurred. The direct material and labor costs of value-added additions or major refurbishment of modular buildings are capitalized to the extent the refurbishment significantly improves the quality and adds value or life to the equipment. Judgment is involved as to when these costs should be capitalized. The Company's policies narrowly limit the capitalization of value-added items to specific additions such as restrooms, 40 and 60-foot sidewalls and ventilation upgrades. In addition, only major refurbishment costs incurred near the end of the estimated useful life of the rental equipment, which extend its useful life, and are subject to certain limitations, are capitalized. Changes in these policies could impact the Company's financial results.

Impairment—The carrying value of the Company's rental equipment is its capitalized cost less accumulated depreciation. To the extent events or circumstances indicate that the carrying value cannot be recovered, an impairment loss is recognized to reduce the carrying value to fair value. The Company determines fair value based upon the condition of the equipment and the projected net cash flows from its sale considering current market conditions. Additionally, if the Company decides to sell or otherwise dispose of the rental equipment, it is carried at the lower of cost or fair value less costs to sell or dispose. Due to uncertainties inherent in the valuation process and market conditions, it is reasonably possible that actual results of operating and disposing of rental equipment could be materially different than current expectations.

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 a majority 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, but there can be no assurance that the Company will be able to continue to pass on increased costs to customers in the future.

Off Balance Sheet Transactions

As of December 31, 2008, the Company did not have any "off-balance-sheet arrangements," as defined in Item 303(a)(4)(ii) of Regulation S-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company is exposed to cash flow and fair value risk due to changes in interest rates with respect to its notes payable. Weighted average variable rates are based on implied forward rates in the yield curve at December 31, 2008. The estimate of fair value of the Company's fixed rate debt is based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities. The table below presents principal cash flows by expected annual maturities, related weighted average interest rates and estimated fair value of the Company's notes payable as of December 31, 2008.

Expected Annual Maturities of Notes Payable as of December 31, 2008*(dollar amounts in thousands)*

	2009	2010	2011	2012	2013	Thereafter	Total	Estimated Fair Value
5.08% Senior Notes due in 2011	\$ 12,000	\$12,000	\$12,000	\$ —	\$ —	\$ —	\$ 36,000	\$ 37,675
Average Interest Rate	5.08%	5.08%	5.08%	5.08%	—	—	5.08%	
Revolving Lines of Credit	\$269,500	\$ —	\$ —	\$ —	\$ —	\$ —	\$269,500	\$ 269,500
Average Interest Rate	2.78%	—	—	—	—	—	2.78%	

The Company formed a wholly owned Canadian subsidiary, TRS-RenTelco Inc. in conjunction with the TRS acquisition (see Item 1—Business—History, Strategic Expansion and Acquisitions and Note 2 to the Consolidated Financial Statements). The Canadian operations of the Company subject it to foreign currency risks (i.e. the possibility that the financial results could be better or worse than planned because of changes in foreign currency exchange rates). Currently, the Company does not use derivative instruments to hedge its economic exposure with respect to assets, liabilities and firm commitments denominated in foreign currencies. In 2008, the Company has experienced minimal impact on net income due to foreign exchange rate fluctuations. Although there can be no assurances, given the size of the Canadian operations, the Company does not expect future foreign exchange gains and losses to be significant.

The Company has no derivative financial instruments that expose the Company to significant market risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for the preparation and integrity of the consolidated financial statements appearing in our Annual Report filed on Form 10-K. The consolidated financial statements were prepared in conformity with United States generally accepted accounting principles and include amounts based on management's estimates and judgments. All other financial information in this report has been presented on a basis consistent with the information included in the financial statements.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008 excluded the business of Adler Tank Rentals, LLC, which business was acquired pursuant to an asset purchase transaction which was closed in December 2008. Adler Tank Rentals is a wholly-owned subsidiary of the Company whose total assets and total net revenues represented less than 12% of consolidated total assets and less than 1% of consolidated net revenues, respectively, of the Company as of and for the year ended December 31, 2008. Companies are allowed to exclude acquisitions from their assessment of internal control over financial reporting during the first year of an acquisition while integrating the acquired company under guidelines established by the Securities and Exchange Commission.

The Company's management is also responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company maintains a system of internal control that is designed to provide reasonable assurance as to the reliable preparation and presentation of the consolidated financial statements, as well as to safeguard assets from unauthorized use or disposition.

The Company's system of internal control over financial reporting is embodied in the Company's Code of Business Conduct and Ethics. It sets the tone of our organization and includes factors such as integrity and ethical values. Our internal control over financial reporting is supported by formal policies and procedures, which are reviewed, modified and improved as changes occur in business conditions and operations.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The Audit Committee of the Board of Directors, which is composed solely of outside directors, meets periodically with members of management and the independent auditors to review and discuss internal controls over financial reporting, as well as accounting and financial reporting matters. The independent auditors report to the Audit Committee and accordingly have full and free access to the Audit Committee at any time.

The Company's management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2008 based on the criteria set forth in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation, management believes that, as of December 31, 2008, the Company's internal control over financial reporting (excluding the business of Adler Tank Rentals, LLC) was effective based on those criteria.

Report on Internal Control over Financial Reporting

Board of Directors and Shareholders of McGrath RentCorp and Subsidiaries:

We have audited McGrath RentCorp and Subsidiaries' Internal Control over Financial Reporting as of December 31, 2008, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). McGrath RentCorp and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on McGrath RentCorp and Subsidiaries' internal control over financial reporting based on our audit. Our audit of, and opinion on, McGrath RentCorp and Subsidiaries' internal control over financial reporting does not include internal control over financial reporting of Adler Tank Rentals, a wholly owned subsidiary, whose financial statements reflect total assets and revenues constituting 12 and 1 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2008. As indicated in Management's Report, Adler Tank Rentals was acquired during 2008 and therefore, management's assertion on the effectiveness of Adler Tank Rentals' internal control over financial reporting excluded internal control over financial reporting of Adler Tank Rentals.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, McGrath RentCorp and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of McGrath RentCorp and Subsidiaries as of December 31, 2008 and 2007 and the related statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2008, and our report dated February 25, 2009 expressed an unqualified opinion on these statements.

/s/ **GRANT THORNTON LLP**

San Francisco, California
February 25, 2009

Report on Consolidated Financial Statements

Board of Directors and Shareholders of McGrath RentCorp and Subsidiaries:

We have audited the accompanying consolidated balance sheets of McGrath RentCorp and Subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2008. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 consolidated financial position of McGrath RentCorp and Subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), McGrath RentCorp and Subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 25, 2009 expressed an unqualified opinion thereon.

/s/ **GRANT THORNTON LLP**

San Francisco, California
February 25, 2009

MCGRATH RENTCORP
CONSOLIDATED BALANCE SHEETS

<i>(in thousands)</i>	December 31,	
	2008	2007
Assets		
Cash	\$ 1,325	\$ 5,090
Accounts Receivable, net of allowance for doubtful accounts of \$1,400 in 2008 and 2007	86,011	67,061
Income Taxes Receivable	7,927	—
Rental Equipment, at cost:		
Relocatable Modular Buildings	503,678	475,077
Electronic Test Equipment	255,778	232,349
Liquid and Solid Containment Tanks and Boxes	46,288	—
	<u>805,744</u>	<u>707,426</u>
Less Accumulated Depreciation	(253,506)	(221,412)
Rental Equipment, net	<u>552,238</u>	<u>486,014</u>
Property, Plant and Equipment, net	76,763	66,480
Prepaid Expenses and Other Assets	18,633	15,793
Intangible Assets, net	14,136	—
Goodwill	27,464	1,798
	<u>\$ 784,497</u>	<u>\$ 642,236</u>
Liabilities and Shareholders' Equity		
Liabilities:		
Notes Payable	\$ 305,500	\$ 197,729
Accounts Payable and Accrued Liabilities	55,471	55,642
Deferred Income	28,055	28,948
Deferred Income Taxes, net	145,590	115,886
Total Liabilities	<u>534,616</u>	<u>398,205</u>
Commitments and Contingencies (Note 8)		
Shareholders' Equity:		
Common Stock, no par value—		
Authorized—40,000 shares		
Issued and Outstanding—23,709 shares in 2008 and 24,578 shares in 2007	45,754	41,917
Retained Earnings	<u>204,127</u>	<u>202,114</u>
Total Shareholders' Equity	249,881	244,031
Total Liabilities and Shareholders' Equity	<u>\$ 784,497</u>	<u>\$ 642,236</u>

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

MCGRATH RENTCORP
CONSOLIDATED STATEMENTS OF INCOME

<i>(in thousands, except per share amounts)</i>	Year Ended December 31,		
	2008	2007	2006
Revenues			
Rental	\$ 197,236	\$ 185,317	\$ 168,940
Rental Related Services	34,080	34,713	31,599
Rental Operations	231,316	220,030	200,539
Sales	70,404	57,829	64,085
Other	2,439	2,550	2,442
Total Revenues	<u>304,159</u>	<u>280,409</u>	<u>267,066</u>
Costs and Expenses			
Direct Costs of Rental Operations			
Depreciation of Rental Equipment	57,115	51,642	45,353
Rental Related Services	24,728	24,257	21,830
Other	36,661	33,363	33,576
Total Direct Costs of Rental Operations	118,504	109,262	100,759
Cost of Sales	49,917	40,591	44,481
Total Costs of Revenues	<u>168,421</u>	<u>149,853</u>	<u>145,240</u>
Gross Profit	135,738	130,556	121,826
Selling and Administrative Expenses	58,059	50,026	45,499
Income from Operations	77,679	80,530	76,327
Interest Expense	9,977	10,719	10,760
Income before Provision for Income Taxes	67,702	69,811	65,567
Provision for Income Taxes	26,498	27,337	24,209
Income before Minority Interest	41,204	42,474	41,358
Minority Interest in Income of Subsidiary	—	64	280
Net Income	<u>\$ 41,204</u>	<u>\$ 42,410</u>	<u>\$ 41,078</u>
Earnings Per Share:			
Basic	\$ 1.74	\$ 1.68	\$ 1.65
Diluted	\$ 1.72	\$ 1.67	\$ 1.63
Shares Used in Per Share Calculations:			
Basic	23,740	25,231	24,948
Diluted	23,944	25,443	25,231
Cash Dividends Declared Per Share	<u>\$ 0.80</u>	<u>\$ 0.72</u>	<u>\$ 0.64</u>

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

MCGRATH RENTCORP
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<i>(in thousands, except per share amounts)</i>	Common Stock		Retained	Total
	Shares	Amount	Earnings	Shareholders' Equity
Balance at December 31, 2005	24,832	\$ 26,224	\$172,245	\$ 198,469
Net Income	—	—	41,078	41,078
Repurchase of Common Stock	(23)	(24)	(502)	(526)
Non-Cash Stock-Based Compensation	—	3,125	—	3,125
Exercise of Stock Options	281	3,591	—	3,591
Excess Tax Benefit from the Exercise of Stock Options	—	1,047	—	1,047
Dividends Declared of \$0.64 Per Share	—	—	(15,992)	(15,992)
Balance at December 31, 2006	25,090	\$ 33,963	\$196,829	\$ 230,792
Net Income	—	—	42,410	42,410
Repurchase of Common Stock	(798)	(1,077)	(19,112)	(20,189)
Non-Cash Stock-Based Compensation	—	3,457	—	3,457
Exercise of Stock Options	286	4,194	—	4,194
Excess Tax Benefit from the Exercise of Stock Options	—	1,380	—	1,380
Dividends Declared of \$0.72 Per Share	—	—	(18,013)	(18,013)
Balance at December 31, 2007	24,578	\$ 41,917	\$202,114	\$ 244,031
Net Income	—	—	41,204	41,204
Repurchase of Common Stock	(969)	(1,663)	(20,237)	(21,900)
Non-Cash Stock-Based Compensation	—	3,766	—	3,766
Issuance of Common Stock	40	696	—	696
Exercise of Stock Options	60	898	—	898
Excess Tax Benefit from the Exercise of Stock Options	—	140	—	140
Dividends Declared of \$0.80 Per Share	—	—	(18,954)	(18,954)
Balance at December 31, 2008	23,709	\$ 45,754	\$204,127	\$ 249,881

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

MCGRATH RENTCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Year Ended December 31,		
	2008	2007	2006
Cash Flows from Operating Activities:			
Net Income	\$ 41,204	\$ 42,410	\$ 41,078
Adjustments to Reconcile Net Income to Net Cash			
Provided by Operating Activities:			
Depreciation	60,416	54,002	47,461
Provision for Doubtful Accounts	1,761	1,195	863
Non-Cash Stock-Based Compensation	3,766	3,457	3,125
Gain on Sale of Rental Equipment	(11,185)	(10,027)	(9,747)
Change In:			
Accounts Receivable	(15,102)	(8,422)	3,727
Income Taxes Receivable	(7,927)	—	—
Prepaid Expenses and Other Assets	(2,475)	(1,721)	148
Accounts Payable and Accrued Liabilities	(531)	(631)	8,829
Deferred Income	(893)	3,096	(2,280)
Deferred Income Taxes	29,704	11,533	5,915
Net Cash Provided by Operating Activities	<u>98,738</u>	<u>94,892</u>	<u>99,119</u>
Cash Flows from Investing Activities:			
Acquisition of Adler Tanks	(88,297)	—	—
Purchase of Rental Equipment	(95,823)	(104,010)	(109,920)
Purchase of Property, Plant and Equipment	(13,552)	(10,482)	(4,247)
Purchase of Minority Interest in Subsidiary	—	(3,756)	—
Proceeds from Sale of Rental Equipment	29,346	25,694	24,144
Net Cash Used in Investing Activities	<u>(168,326)</u>	<u>(92,554)</u>	<u>(90,023)</u>
Cash Flows from Financing Activities:			
Net Borrowings Under Bank Lines of Credit	119,771	44,172	2,325
Principal Payments on Senior Notes	(12,000)	(12,000)	—
Proceeds from the Exercise of Stock Options	898	4,194	3,591
Excess Tax Benefit from Exercise and Disqualifying Disposition of Stock Options	140	1,380	1,047
Repurchase of Common Stock	(24,418)	(17,670)	(526)
Payment of Dividends	(18,568)	(17,673)	(15,460)
Net Cash Provided by (Used in) Financing Activities	<u>65,823</u>	<u>2,403</u>	<u>(9,023)</u>
Net (Decrease) Increase in Cash	<u>(3,765)</u>	<u>4,741</u>	<u>73</u>
Cash Balance, beginning of period	5,090	349	276
Cash Balance, end of period	<u>\$ 1,325</u>	<u>\$ 5,090</u>	<u>\$ 349</u>
Interest Paid, during the period	<u>\$ 10,073</u>	<u>\$ 10,718</u>	<u>\$ 10,511</u>
Income Taxes Paid, during the period	<u>\$ 4,581</u>	<u>\$ 14,424</u>	<u>\$ 17,248</u>
Dividends Declared, not yet paid	<u>\$ 4,742</u>	<u>\$ 4,536</u>	<u>\$ 4,016</u>
Rental Equipment Acquisitions, not yet paid	<u>\$ 8,329</u>	<u>\$ 7,403</u>	<u>\$ 9,432</u>
Common Stock Issued for the Acquisition of Adler Tanks, during the period	<u>\$ 696</u>	<u>\$ —</u>	<u>\$ —</u>

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 (the Company) is a California corporation organized in 1979. The Company is a diversified business to business rental company with three rental products; relocatable modular buildings, electronic test equipment and liquid and solid containment tanks and boxes. Although the Company's primary emphasis is on equipment rentals, sales of equipment occur in the normal course of business. The Company is comprised of four business segments: its modular building division ("Mobile Modular"), its electronic test equipment division ("TRS-RenTelco"), Adler Tank Rentals, LLC, its wholly-owned subsidiary providing containment solutions for storage of hazardous and non-hazardous liquids and solids ("Adler Tanks") and its classroom manufacturing business ("Enviroplex", a wholly owned subsidiary) selling modular classrooms in California.

Mobile Modular rents and sells modular buildings and accessories to fulfill customers' temporary and permanent space needs in California, Texas, Florida, North Carolina, Georgia and beginning in 2008 in Maryland and Virginia. These modular buildings are used as classrooms, temporary offices adjacent to existing facilities, sales offices, construction field offices, health care clinics, child care facilities and for a variety of other purposes. Significant portions of Mobile Modular's rental and sales revenues are derived from the educational market and are primarily affected by demand for classrooms, which in turn is affected by shifting and fluctuating school populations, the level of state funding to public schools, the need for temporary classroom space during reconstruction of older schools and changes in policies regarding class size. Looking forward, the Company believes that any interruption in the passage of facility bonds, contraction of class size reduction programs, a lack of fiscal funding by the state for existing contracts, or a significant reduction of future funding to public schools may have a material adverse effect on both rental and sales revenues of the Company.

TRS-RenTelco rents and sells electronic test equipment nationally and internationally from its Grapevine, Texas (Dallas Area) and Dollard-des-Ormeaux, Canada (Montreal Area) facilities. TRS-RenTelco revenues are derived from the rental and sale of general purpose and communications test equipment to a broad range of companies, from Fortune 500 to middle and smaller market companies, in the aerospace, defense, electronics, industrial, research and semiconductor industries. Electronic test equipment revenues are primarily affected by the business activity within these industries related to research and development, manufacturing, and communication infrastructure installation and maintenance.

Adler Tanks is a provider of containment solutions for the storage of hazardous and non-hazardous liquids and solids. Adler Tanks rents temporary storage tanks and containers used in energy, environmental, industrial and construction applications.

Enviroplex manufactures portable classrooms built to the requirements of the California Division of the State Architect ("DSA") and sells directly to California public school districts and other educational institutions.

Significant risks of rental equipment ownership are borne by the Company, which include, but are not limited to, uncertainties in the market for its products over the equipment's useful life, use limitations for modular equipment related to updated building codes or legislative changes, technological obsolescence of electronic test equipment, changes in Federal and State laws regulating liquid and solid containment storage, environmental litigation and rental equipment deterioration. The Company believes it mitigates these risks by continuing advocacy and collaboration with governing agencies and legislative bodies for continuing use of its modular products, staying abreast of technology trends in order to make good buy-sell decisions of electronic test equipment, and ongoing investment in repair and maintenance programs to insure all types of rental equipment are maintained in good operating condition.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of McGrath RentCorp and its 100% owned subsidiaries: Mobile Modular Management Corporation, Enviroplex Inc., TRS-RenTelco Inc. and Adler Tank Rentals, LLC. All intercompany accounts and transactions have been eliminated in consolidation.

Revenue Recognition

Rental revenue from operating leases is recognized on a straight-line basis over the term of the lease in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 13, “Accounting for Leases”. Rental billings for periods extending beyond month end are recorded as deferred income and are recognized as earned. Rental related services revenue is primarily associated with relocatable modular building leases and consists of billings to customers for modifications, delivery, installation, building, additional site related work, and dismantle and return delivery. Revenue from these services is an integral part of the negotiated lease agreement with the customer and is recognized on a straight-line basis over the term of the lease.

Sales revenue is recognized upon delivery and installation of the equipment to the customer. Certain financed sales meeting the requirements of SFAS No. 13 are accounted for as sales-type leases. For these leases, sales revenue and the related accounts receivable are recognized upon delivery and installation of the equipment and the unearned interest is recognized over the lease term on a basis which results in a constant rate of return on the unrecovered lease investment.

Other revenue is recognized when earned and primarily includes interest income on sales-type leases, rental income on facility rentals and certain logistics services.

Sales taxes charged to customers are reported on a net basis and are excluded from revenues and expenses.

Depreciation of Rental Equipment

Rental equipment is 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 buildings are capitalized to the extent the refurbishment significantly adds value to, or extends the life of the equipment. Maintenance and repairs are expensed as incurred.

The estimated useful lives and residual values of the Company’s rental equipment used for financial reporting purposes are as follows:

Relocatable modular buildings and accessories	3 to 18 years, 0% to 50% residual value
Electronic test equipment and accessories	1 to 8 years, no residual value
Portable storage containers	25 years, 62.5% residual value
Liquid and solid containment tanks and boxes and accessories	10 to 20 years, no residual value

Costs of Rental Related Services

Costs of rental related services are primarily associated with relocatable modular building leases and consist of costs for services to be provided under the negotiated lease agreement for delivery, installation, modifications, skirting, additional site related work, and dismantle and return delivery. Costs related to these services are recognized on a straight-line basis over the term of the lease. Costs of rental related services associated with liquid and solid containment solutions consists of costs of delivery, removal and cleaning of the tanks and boxes. These costs are recognized in the period the service was performed.

Impairment of Long-Lived Assets

The Company evaluates the carrying value of rental equipment and identifiable definite lived intangible assets in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”. Under SFAS No. 144, rental equipment and identifiable definite lived intangible assets are reviewed for impairment whenever events or circumstances have occurred that would indicate the carrying amount may not be fully recoverable. A key element in determining the recoverability of long-lived assets is the Company’s outlook as to the future market conditions for its equipment. If the carrying amount is not fully recoverable, an impairment loss is recognized to reduce the carrying amount to fair value. The Company determines fair value based upon the condition of the equipment and the projected net cash flows from its sale considering current market conditions. Impairment loss, if any, for identifiable indefinite lived intangible assets is determined based upon the estimated fair value of the asset. There were no impairments of long-lived assets during the year ended December 31, 2008.

Other Direct Costs of Rental Operations

Other direct costs of rental operations primarily relate to costs associated with modular operations and include direct labor, supplies, repairs, insurance, property taxes, and license fees. Other direct costs of rental operations also include certain modular lease costs charged to the customer in the negotiated rental rate, which are recognized on a straight-line basis over the term of the lease.

Cost of Sales

Cost of sales in the Consolidated Statements of Income includes the carrying value of the equipment sold and all direct costs associated with the sale.

Warranty Reserves

Sales of new relocatable modular buildings, electronic test equipment and related accessories and liquid and solid containment tanks and boxes not manufactured by the Company are typically covered by warranties provided by the manufacturer of the products sold. The Company typically 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 as warranty costs have not been significant.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation. Depreciation is recognized on a straight-line basis for financial reporting purposes, and on an accelerated basis for income tax purposes with no residual values. Depreciation expense is included in “Selling and Administrative” expenses in the Consolidated Statements of Income. Maintenance and repairs are expensed as incurred.

Property, plant and equipment consist of the following:

	Estimated Useful Life In Years	December 31,	
		2008	2007
<i>(dollar amounts in thousands)</i>			
Land		\$ 26,046	\$ 26,046
Land improvements	20 – 50	30,900	22,247
Buildings	30	16,688	11,779
Furniture, Office and Computer Equipment	5 – 10	16,326	7,077
Machinery and Service Equipment	5 – 20	3,364	2,796
		93,324	69,945
Less Accumulated Depreciation		(16,947)	(15,216)
		76,377	54,729
Construction In Progress		386	11,751
		\$ 76,763	\$ 66,480

Construction in progress at December 31, 2008 consisted primarily of costs related to information technology projects. Construction in progress at December 31, 2007 consisted primarily of \$6.1 million related to the Company’s new ERP system and \$5.1 million related to development of a sales and inventory center in Florida, which were placed into service during 2008.

Income Taxes

Income taxes are accounted for using an asset and liability approach. Deferred tax assets and liabilities are recorded based on the differences between the financial statement and tax bases of assets and liabilities at the tax rates in effect when these differences are expected to reverse.

Goodwill and Intangible Assets

Goodwill and intangible assets primarily represent intangible assets from the 2008 acquisition of Adler Tanks of \$39.9 million. Intangible assets related to customer relationships are amortized over eleven years. Intangible assets related to goodwill and tradename are not amortized, but are evaluated for impairment at least annually in accordance with SFAS No. 142 “Goodwill and Other Intangible Assets”. At December 31, 2008, and 2007, goodwill and tradename intangible assets which have indefinite lives totaled \$33.2 million and \$1.8 million, respectively.

Earnings Per Share

Basic earnings per share (“EPS”) is computed as net income divided by the weighted average number of shares of common stock outstanding for the period. 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 period including the dilutive effects of stock options and other potentially dilutive securities. Common stock equivalents result from the number of dilutive options computed using the treasury stock method and the average share price for the reported period. The effect of dilutive options on the weighted average number of shares for the years ended December 31, 2008, 2007 and 2006 was 204,168, 212,241, and 283,080, respectively. Stock options to purchase 1,077,000, 530,000, and 545,500 shares in 2008, 2007 and 2006, respectively, of the Company’s common stock were not included in the computation of diluted EPS because the exercise price exceeded the average market price and the effect would have been anti-dilutive.

Accounts Receivable and Concentration of Credit Risk

The Company’s accounts receivable consist of amounts due from customers for rentals, sales, financed sales and unbilled amounts for the portion of Mobile Modular end-of-lease services earned, which were negotiated as part of the lease agreement. Unbilled receivables related to end-of-lease services were \$19.5 million and \$17.4 million at December 31, 2008 and 2007, respectively. The Company sells primarily on 30-day terms, individually performs credit evaluation procedures on its customers on each transaction and will require security deposits from its customers when a significant credit risk is identified. The Company records an allowance for doubtful accounts in amounts equal to the estimated losses expected to be incurred in the collection of the accounts. The estimated losses are based on historical collection experience in conjunction with an evaluation of the current status of the existing accounts. Customer accounts are written off against the allowance for doubtful accounts when an account is determined to be uncollectable. The allowance for doubtful accounts activity was as follows:

<i>(in thousands)</i>	2008	2007
Beginning Balance, January 1	\$ 1,400	\$ 1,000
Acquired Adler Tanks Reserve (see Note 9)	75	—
Provision for doubtful accounts	1,761	1,195
Write-offs, net of recoveries	(1,836)	(795)
Ending Balance, December 31	\$ 1,400	\$ 1,400

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of trade accounts receivable. A significant portion of the Company’s total revenues are derived from the educational market. Within the educational market, modular rentals and sales to public school districts for kindergarten through grade twelve (K-12) comprised approximately

30%, 30% and 33% of the Company's consolidated rental and sales revenues for 2008, 2007 and 2006, respectively, with no one customer accounting for more than 10% of the Company's consolidated revenues in any single year. A lack of fiscal funding or a significant reduction of funding from the respective states, in particular, the States of California and Florida, to public schools could have a material adverse effect on the Company.

Fair Value of Financial Instruments

The Company believes that the carrying amounts for cash, accounts receivable, accounts payable and notes payable approximate their fair value except for fixed rate debt included in notes payable which has an estimated fair value of \$37.7 million and \$48.6 million compared to the recorded value of \$36.0 million and \$48.0 million as of December 31, 2008 and 2007, respectively. The estimates of fair value of the Company's fixed rate debt are based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities.

Foreign Currency Transactions

The Company's Canadian subsidiary, TRS-RenTelco Inc., a British Columbia corporation, functions as a branch sales office for TRS-RenTelco in Canada. Since the functional currency of the Company's Canadian subsidiary is the U.S. dollar, foreign currency transaction gains and losses of the Company's Canadian subsidiary are reported in the results of operations in the period in which they occur. Currently, the Company does not use derivative instruments to hedge its economic exposure with respect to assets, liabilities and firm commitments as the foreign currency transactions and risks to date have not been significant.

Stock-Based Compensation

Beginning on January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R") using the modified prospective method, which requires the expensing of employee stock options at fair value. Under the modified prospective method, compensation expense recognized includes the estimated expense for stock options granted on and subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R, and the estimated expense for the portion vesting in the period for options granted prior to, but not vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123"). Stock based compensation expense is recognized net of estimated forfeitures. Results for prior periods have not been restated, as provided for under the modified prospective method. Prior to the adoption of SFAS No. 123R, the Company used the intrinsic method of valuing share-based payment transactions allowed under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees". Accordingly, because stock option grant prices equaled market prices on the dates of grant, no compensation expense was recognized by the Company for stock-based compensation.

The Company utilizes the Black-Scholes option pricing model to estimate the fair value of employee stock-based compensation at the date of grant, which requires the use of accounting judgment and financial estimates, including estimates of the expected term option holders will retain their vested stock options before exercising them, the estimated volatility of the Company's stock price over the expected term and the number of options that will be forfeited prior to the completion of their vesting requirements. Application of alternative assumptions could produce significantly different estimates of the fair value of stock-based compensation and consequently, the related amounts recognized in the Consolidated Statements of Income.

For the years ended December 31, 2008, 2007 and 2006, the non-cash stock-based compensation expense included in Selling and Administrative Expenses in the Consolidated Statements of Income was \$3.8 million, \$3.5 million and \$3.1 million, before provision for income taxes, respectively. The Company recorded a tax benefit of approximately \$0.1 million, \$1.4 million and \$1.0 million related to the aforementioned stock-based compensation expenses. For the years ended December 31, 2008, 2007 and 2006, the stock-based compensation expenses, net of taxes, reduced net income by \$2.3 million, \$2.1 million and \$1.9 million, respectively or \$0.10, \$0.08, and \$0.08 per diluted share for each period, respectively.

MCGRATH RENTCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model using the following weighted average assumptions:

	Year Ended December 31,		
	2008	2007	2006
Expected term (in years)	5.0	5.0	5.2
Expected volatility	33.3%	29.6%	30.1%
Expected dividend yields	3.8%	2.3%	2.0%
Risk-free interest rates	2.8%	4.6%	4.4%

The Company monitors option exercise behavior to determine the appropriate homogenous groups for estimation purposes. Currently, the Company's option activity is separated into two categories: directors and employees. The expected term of the options represents the estimated period of time until exercised and is based on historical experience, giving consideration to the option terms, vesting schedules and expectations of future employee behavior. Expected stock volatility is based on historical stock price volatility of the Company and the risk free interest rates are based on U.S. Treasury yields in effect on the date of the option grant for the estimated period the options will be outstanding. The expected dividend yield is based upon the current dividend annualized as a percentage of the grant exercise price.

The weighted average fair value per share of grants at grant dates was \$4.69, \$8.46 and \$8.37 during the years ended 2008, 2007 and 2006, respectively.

New Accounting Pronouncements

The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurement" ("SFAS No.157") on January 1, 2008. SFAS No.157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosure about fair value measurements. In February 2008, the Financial Accounting Standards Board ("FASB") issued Staff Position 157-1 ("FSP157-1"), which amends SFAS No. 157 to exclude SFAS No. 13, "Accounting for Leases" and its related interpretive accounting pronouncements that address leasing transactions. FSP 157-1 was effective upon the initial adoption of SFAS No. 157. The adoption of SFAS No. 157 and FSP 157-1 did not have any significant impact on the Company's financial condition, or results of operations.

SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159") became effective on January 1, 2008. SFAS No. 159 permits entities to choose to measure financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The Company did not choose to measure any financial instruments or other items in accordance with the provisions of SFAS 159.

In December 2007, FASB issued SFAS No. 141(R), "Business Combinations", and SFAS No. 160, "Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements", an Amendment of Accounting Research Bulletin (ARB) No. 51. These new standards will significantly change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements. SFAS Nos. 141(R) and 160 are effective for financial statements issued for fiscal years beginning on or after December 15, 2008. SFAS No. 141(R) will be applied by the Company to business combinations occurring on or after January 1, 2009. The Company is currently evaluating the impact of the pending adoption of SFAS No. 141(R) on its consolidated financial statements. The Company does not currently have any noncontrolling interest in subsidiaries. The Company expects SFAS 141R will have an impact on its financial position and results of operations in future periods; however, the nature and magnitude of the specific effects will depend upon the nature, term and size of the acquisition the Company consummates after the effective date of January 1, 2009. The Company does not believe the adoption of SFAS No. 160 will materially impact the presentation of the financial results of the Company.

MCGRATH RENTCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In April 2008, FASB Staff Position 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3") was issued. This standard amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets". FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The Company does not expect the adoption of FSP142-3 to have a significant impact on its financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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. The most significant estimates included in the financial statements are the future cash flows and fair values used to determine the recoverability of the rental equipment and identifiable definite lived intangible assets carrying value, the various assets' useful lives and residual values, and the allowance for doubtful accounts.

Reclassifications

Certain prior period amounts have been reclassified to conform to current year presentation. Such reclassifications did not affect total revenues, operating income or net income.

NOTE 3. FINANCED LEASE RECEIVABLES

The Company has entered into sales type leases to finance certain equipment sales to customers. The lease agreements have a bargain purchase option at the end of the lease term. The minimum lease payments receivable and the net investment included in accounts receivable for such leases are as follows:

<i>(in thousands)</i>	December 31,	
	2008	2007
Gross minimum lease payments receivable	\$4,931	\$3,114
Less—unearned interest	(582)	(430)
Net investment in sales type lease receivables	\$4,349	\$2,684

As of December 31, 2008, the future minimum lease payments under non-cancelable leases to be received in 2009 and thereafter are as follows:

<i>(in thousands)</i>	
Year Ended December 31,	
2009	\$ 3,662
2010	1,143
2011	96
2012	25
2013	5
2014 and thereafter	—
Total minimum future lease payments	\$4,931

NOTE 4. NOTES PAYABLE

Notes Payable consist of the following:

<i>(in thousands)</i>	December 31,	
	2008	2007
5.08% Senior Notes due in 2011	\$ 36,000	\$ 48,000
Unsecured Revolving Lines of Credit	269,500	149,729
	\$305,500	\$197,729

5.08% Senior Notes Due in 2011

In June 2004, the Company completed a private placement of \$60.0 million of 5.08% senior notes due in 2011. Interest on these notes is due semi-annually in arrears and the principal is due in five equal annual installments, with the second payment made on June 2, 2008 which reduced the principal balance to \$36.0 million. Among other restrictions, the Note Agreement, under which the senior notes were sold, contains financial covenants requiring the Company to not:

- Permit the consolidated fixed charge coverage ratio of Adjusted EBITDA (as defined) to fixed charges as of the end of any fiscal quarter to be less than 2.00 to 1.00. At December 31, 2008 the actual ratio was 4.28.
- Permit the consolidated leverage ratio of funded debt to Adjusted EBITDA (as defined) at any time during any period of four consecutive quarters to be greater than 2.25 to 1.00. At December 31, 2008 the actual ratio was 2.15.
- Permit tangible net worth (as defined to include the intangible assets of Adler Tanks) calculated as of the last day of each fiscal quarter to be less than the sum of \$127.5 million, plus 50% of net income for such fiscal quarter, plus 90% of the net cash proceeds from the issuance of the Company's capital stock after December 31, 2003, excluding the first \$2.0 million of such proceeds from the exercise of stock options after December 31, 2003. At December 31, 2008, such sum was \$236.8 million and the actual tangible net worth of the Company was \$248.1 million.

Revolving Lines of Credit

In May 2008, the Company entered into a credit facility with a syndicate of banks (the "Credit Facility"). The Credit Facility provides for a \$350.0 million unsecured revolving credit facility and requires the Company to pay interest determined by reference to the Consolidated Leverage ratio (as defined). In addition, the Company pays a commitment fee on the daily unused portion of the available facility. The Credit Facility matures on May 14, 2013.

In June, 2008, the Company entered into a Credit Facility Letter Agreement with Union Bank of California, N.A. and a Credit Line Note in favor of Union Bank of California, N.A., extending its \$5.0 million line of credit facility related to its cash management services ("Sweep Service Facility"). The Sweep Service Facility matures on the earlier of May 14, 2013, or the date the Company ceases to utilize Union Bank of California, N.A. for its cash management services.

At December 31, 2008, under the Credit Facility and the Sweep Service Facility, the Company had unsecured lines of credit that permit it to borrow up to \$355.0 million of which \$269.5 million was outstanding and had capacity to borrow up to an additional \$85.5 million. The Credit Facility contains financial covenants requiring the Company to not:

- Permit the Consolidated Fixed Charge Coverage Ratio (as defined) as of the end of any fiscal quarter to be less than 2.00 to 1.00 under the Company's credit facilities. At December 31, 2008 the actual ratio was 3.39.
- Permit the Consolidated Asset Coverage Ratio (as defined) as of the end of any fiscal quarter to be less than 1.50 to 1.00 under the Company's credit facilities. At December 31, 2008 the actual ratio was 2.34.
- Permit the Consolidated Leverage Ratio (as defined) at any time during any period of four consecutive quarters to be greater than 2.50 to 1.00 under the Company's credit facilities. At December 31, 2008 the actual ratio was 2.15.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

At December 31, 2008, the Company was in compliance with each of the aforementioned covenants. There are no anticipated trends that the Company is aware of that would indicate non-compliance with these covenants, though, significant deterioration in our financial performance could impact the Company's ability to comply with these covenants.

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

<i>(dollar amounts in thousands)</i>	Year Ended December 31,	
	2008	2007
Maximum amount outstanding	\$ 269,500	\$ 149,729
Average amount outstanding	\$ 186,265	\$ 127,804
Weighted average interest rate, during the period	4.19%	6.18%
Weighted average interest rate, end of period	2.78%	6.01%
Prime interest rate, end of period	3.25%	7.25%

NOTE 5. INCOME TAXES

The provision for income taxes consists of the following:

<i>(in thousands)</i>	Year Ended December 31,		
	2008	2007	2006
Current	\$ (3,819)	\$16,228	\$16,135
Deferred	30,317	11,109	8,074
	\$26,498	\$27,337	\$24,209

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

	Year Ended December 31,		
	2008	2007	2006
Federal statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	4.7	4.2	2.3
Other	(0.6)	—	(0.4)
	39.1%	39.2%	36.9%

MCGRATH RENTCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table shows the deferred income taxes related to the temporary differences between the tax bases of assets and liabilities and the respective amounts included in “Deferred Income Taxes, net” on the Company’s Consolidated Balance Sheets:

<i>(in thousands)</i>	December 31,	
	2008	2007
Deferred Tax Liabilities:		
Accelerated Depreciation	\$ 150,633	\$ 120,870
Prepaid Costs Currently Deductible	5,542	5,243
Other	—	1,263
Total Deferred Tax Liabilities	156,175	127,376
Deferred Tax Assets:		
Accrued Costs Not Yet Deductible	6,022	5,322
Deferred Revenues	—	2,035
Allowance for Doubtful Accounts	517	543
Stock Based Compensation	3,670	2,295
Other	376	1,295
Total Deferred Tax Assets	10,585	11,490
Deferred Income Taxes, net	\$ 145,590	\$ 115,886

In 2008, 2007 and 2006 the Company obtained an excess tax benefit of \$0.1 million, \$1.4 million and \$1.0 million respectively, from the exercise of non-qualified options and early disposition of stock obtained through the exercise of incentive stock options by employees. The tax benefit was recorded as common stock in conjunction with the proceeds received from the exercise of the stock options.

In July 2006, FASB issued FASB Interpretation Number 48, “Accounting for Uncertainty in Income Taxes,” (“FIN48”) an Interpretation of SFAS No. 109, “Accounting for Income Taxes”. The Company adopted the provisions of FIN 48 on January 1, 2007. Previously, the Company had accounted for tax contingencies in accordance SFAS No. 5, “Accounting for Contingencies”. As required by FIN 48, which clarifies SFAS No. 109, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At January 1, 2007, the Company applied FIN 48 to all tax positions for which the statute of limitations remained open and determined there were no material unrecognized tax benefits as of that date. In addition, there have been no material changes in unrecognized benefits since January 1, 2007. As a result, the adoption of FIN 48 did not have a material effect on the Company’s financial condition, or results of operation in 2008 and 2007.

The Company is subject to income taxes in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Tax regulations within each jurisdiction are subject to interpretation of the related tax laws and regulations and require the application of significant judgment. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for the years before 2004.

The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes for all periods presented. Such interest and penalties were not significant.

NOTE 6. BENEFIT PLANS

Stock Plans

The Company adopted the 2007 Stock Incentive Plan (the “2007 Plan”) effective June 6, 2007, under which 1,875,000 shares of common stock of the Company, plus the number of shares that remained available for grants of awards under the Company’s 1998

MCGRATH RENTCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Stock Option Plan (the “1998 Plan”) and those shares that become available as a result of forfeiture, termination, or expiration of awards previously granted under the 1998 Plan, were reserved for the grant of awards to its employees, directors and consultants to acquire common stock of the Company. The awards have a maximum term of 10 years. Options under the 2007 Plan are granted at an exercise price of not less than 100% of the fair market value of the Company’s common stock on the date of grant. The 2007 Plan replaced the Company’s 1998 Plan and the 2000 Long-Term Bonus Plan (the “2000 Plan”).

As of December 31, 2008, a cumulative total of 5,173,500 shares subject to options have been granted with exercise prices ranging from \$7.81 to \$34.28. Of these, options have been exercised for the purchase of 1,588,008 shares, while options for 599,550 shares have been terminated, and options for 2,985,942 shares remain outstanding under the stock plans. Most of these options vest over five years and expire seven and ten years after grant. To date, no options have been issued to any of McGrath RentCorp’s non-employee advisors. As of December 31, 2008, 1,301,050 shares remain available for issuance of awards under the stock plans.

Option activity and options exercisable including the weighted average exercise price for the three years ended December 31, 2008 are as follows:

	Year Ended December 31,					
	2008		2007		2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding at January 1,	2,173,346	\$ 24.30	2,015,219	\$ 20.72	1,852,054	\$ 17.30
Options granted during the year	949,000	20.83	574,000	31.27	486,500	29.28
Options exercised during the year	(59,354)	15.13	(285,273)	14.70	(280,855)	12.78
Options terminated during the year	(77,050)	25.64	(130,600)	20.54	(42,450)	22.24
Options outstanding at December 31,	2,985,942	23.35	2,173,346	24.30	2,015,219	20.72
Options exercisable at December 31,	1,399,817	22.82	952,846	20.56	825,944	17.87

The aggregate intrinsic value of stock options is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company’s common stock. The aggregate intrinsic value of options outstanding as of December 31, 2008 and 2007 was \$3.7 million and \$3.2 million, respectively, and had a weighted average remaining contract life of 5.88 years and 6.73 years, respectively. The aggregate intrinsic value of options exercisable as of December 31, 2008 and 2007 was \$2.5 million and \$4.9 million, respectively, and had a weighted average remaining contract life of 5.66 years and 6.56 years, respectively. The aggregate intrinsic value of options exercised under the Company’s stock option plans was \$0.4 million, \$4.1 million and \$4.0 million for the years ended December 31, 2008, 2007 and 2006, respectively, determined as of the date of option exercise. As of December 31, 2008, there was approximately \$7.7 million of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under our stock plans, which is expected to be recognized over a weighted-average period of 3.0 years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table indicates the options outstanding and options exercisable by exercise price with the weighted average remaining contractual life for the options outstanding and the weighted average exercise price at December 31, 2008:

Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2008	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at December 31, 2008	Weighted Average Exercise Price
\$ 5– 10	47,200	1.49	\$ 9.20	47,200	\$ 9.20
10 –15	199,800	4.11	11.99	180,925	12.01
15 –20	242,073	5.34	15.74	211,423	15.62
20 –25	1,391,869	6.14	21.26	369,019	22.25
25 –30	593,000	7.01	28.79	359,400	29.42
30 –35	512,000	5.24	31.38	231,850	31.28
5 – 35	2,985,942	5.88	23.35	1,399,817	22.82

Employee Stock Ownership Plan

In 1985, the Company established an Employee Stock Ownership Plan. Under the terms of the plan, as amended, the Company makes annual contributions in the form of cash or common stock of McGrath RentCorp to a trust for the benefit of eligible employees. The amount of the contribution is determined annually by the Board of Directors. Contributions are expensed in the year approved and were \$0.7 million for 2008, \$1.4 million for 2007 and \$1.3 million for 2006.

401(k) Plans

In 1995, McGrath RentCorp established a contributory retirement plan, the McGrath RentCorp 401(k) Plan, as amended, covering eligible employees of McGrath RentCorp with at least three months of service. The McGrath RentCorp 401(k) Plan provides that each participant may annually contribute an elected percentage of his or her salary, not to exceed the statutory limit. McGrath RentCorp, at its discretion, may make matching contributions; however, no contributions were made through 2007. In 2008, an employer profit sharing contribution of \$0.7 million was approved by the Board of Directors and expensed.

In 1997, Enviroplex established a contributory retirement plan, the Enviroplex 401(k) Plan, as amended, covering eligible employees of Enviroplex with at least three months of service. The Enviroplex 401(k) Plan provides that each participant may annually contribute an elected percentage of his or her salary, not to exceed the statutory limit. Enviroplex at its discretion may make a matching contribution. Enviroplex made contributions of \$30,000, \$31,000 and \$32,000 in 2008, 2007 and 2006, respectively.

NOTE 7. SHAREHOLDERS' EQUITY

From time to time, the Board of Directors has authorized the repurchase of shares of the Company's outstanding common stock. These purchases are made in the over-the-counter market (NASDAQ) and/or through block transactions at such repurchase price as the officers deem appropriate and desirable on behalf of the Company. All shares repurchased by the Company are canceled and returned to the status of authorized but unissued shares of common stock. During 2008, 2007 and 2006, the Company repurchased 968,746, 797,643 and 22,733 shares of common stock, respectively for an aggregate repurchase price of \$21.9 million, \$20.2 million and \$0.5 million or an average price of \$22.61, \$25.31 and \$23.14 per share, respectively.

NOTE 8. COMMITMENTS AND CONTINGENCIES

The Company leases certain facilities under various operating leases. Most of the lease agreements provide the Company with the option of renewing its lease at the end of the lease term, at the fair rental value. In most cases, management expects that in the

MCGRATH RENTCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

normal course of business facility leases will be renewed or replaced by other leases. Minimum payments under these leases, exclusive of property taxes and insurance, are as follows:

<i>(in thousands)</i>	
Year Ended December 31,	
2009	\$ 967
2010	928
2011	928
2012	812
2013	812
Thereafter	<u>3,045</u>
	<u>\$7,492</u>

Rent expense was \$1.0 million, \$1.1 million and \$0.9 million in 2008, 2007 and 2006, respectively.

The Company is involved in various lawsuits and routine claims arising out of the normal course of its business. The Company maintains insurance coverage for its operations and employees with appropriate aggregate, per occurrence and deductible limits as the Company reasonably determines necessary or prudent with current operations and historical experience. The major policies include coverage for property, general liability, auto, directors and officers, health, and workers' compensation insurances. In the opinion of management, the ultimate amount of liability not covered by insurance, if any, under any pending litigation and claims, individually or in the aggregate, will not have a material adverse effect on the financial position or operating results of the Company.

NOTE 9. ACQUISITION

On December 11, 2008, the Company, through its newly created wholly-owned subsidiary Adler Tank Rentals, LLC, a Delaware limited liability company (the "Purchaser"), completed the purchase of substantially all of the assets of the liquid and solid containment tanks and boxes rental business ("Adler Tanks") of Adler Tank Rentals, LLC, a New Jersey limited liability company. Pursuant to the terms and conditions of the Asset Purchase Agreement, the Purchaser acquired Adler Tanks for a total purchase price of \$90.8 million, which consisted of \$87.5 million in cash, 40,000 shares of the Company's common stock valued at \$0.7 million, \$1.8 million of certain liabilities relating to Adler Tanks and \$0.8 million of transaction costs. The cash portion of the purchase price is subject to certain post-closing adjustments for net working capital, which will be recorded against goodwill. The Company financed the acquisition from its \$350 million credit facility. Since December 11, 2008, Adler Tanks' results have been included in the 2008 Consolidated Statements of Income. At December 31, 2008, \$1.8 million is included in accounts payable and accrued liabilities related to the purchase price.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The acquisition was accounted for using the purchase method of accounting in accordance with SFAS No. 141 “Business Combinations”, (“SFAS No. 141”). Under the purchase method of accounting, the total purchase price is allocated to Adler Tanks’ assets based upon their fair value as of the date of the transaction. Based upon the allocation of the purchase price and management’s estimate of fair value based upon an independent valuation, the purchase price allocation was as follows:

(in thousands)

Rental Equipment	\$43,706
Intangible Assets:	
Goodwill	25,666
Customer Relationship	8,500
Trade Name	5,700
Accounts Receivable, net	5,609
Property, Plant and Equipment	2,390
Prepaid Expenses and Other Assets	300
Accounts Payable and Accrued Liabilities	(1,032)
Total Purchase Price	\$90,839

A valuation of the purchased assets was performed to determine the fair value of each identifiable tangible and intangible asset and allocate the purchase price among the acquired assets and assumed liabilities. Standard valuation procedures and techniques were utilized in determining the fair values. Of the \$25.7 million fair value allocated to goodwill, \$25.0 million is expected to be deductible for tax purposes.

Supplemental pro forma information reflecting the acquisition of Adler Tanks as if it occurred on January 1, 2007, has not been provided due to the fact that the historical data necessary to compile such pro forma information was impracticable to obtain.

In November 2007, the Company purchased the remaining minority interest in Enviroplex Inc., a classroom manufacturing business selling modular classrooms in California. The stock purchase was for \$3.8 million in cash and increased the Company’s ownership of Enviroplex Inc. from 81.1% to 100%. The purchase was accounted for in accordance with SFAS No. 141, with the purchased assets and assumed liabilities recorded at their estimated fair values at the date of acquisition. With the exception of land, the assets and liabilities acquired had a cost basis that approximated fair value. The cost basis of the Enviroplex Inc. land was increased by \$0.2 million to reflect estimated fair value.

NOTE 10. INTANGIBLE ASSETS

Purchase price of acquired businesses have been allocated to the assets and liabilities acquired based on the estimated fair values on the respective acquisition dates. Based on these values, the excess purchase prices over the fair value of the net assets acquired were allocated to goodwill and other intangible assets. Intangible assets consist of the following:

(dollar amounts in thousands)

	Estimated Useful Life	December 31,	
		2008	2007
Goodwill	Indefinite	\$27,464	\$1,798
Trade name	Indefinite	5,700	—
Customer Relationships	11 years	8,500	—
		41,664	1,798
Less Accumulated Amortization		(64)	—
		\$41,600	\$1,798

MCGRATH RENTCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Intangible assets with finite useful lives are amortized over their respective useful lives. Based on the carrying values at December 31, 2008 and assuming no subsequent impairment of the underlying assets, the annual amortization is expected to be \$0.8 million in 2009 through 2013. The Company, in accordance with SFAS No. 142 evaluates the carrying value of intangible assets annually to determine if events and circumstances have occurred to indicate impairment of these assets. In addition, the Company performs an impairment test during any reporting period in which events or changes in circumstances indicate that an impairment may have occurred.

NOTE 11. RELATED PARTY TRANSACTIONS

During 2008, the Company purchased liquid and solid containment tanks totaling \$0.3 million from Sabre Manufacturing, LLC, which is controlled by the President of Adler Tanks. In addition, the Company leases two operating facilities and receives certain support services from companies controlled by the President of Adler Tanks, which were not significant in 2008. Amounts due to related parties at December 31, 2008 totaled \$0.4 million.

NOTE 12. SEGMENT REPORTING

SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," establishes annual and interim reporting standards for an enterprise's operating segments and related disclosures about its products, services, geographic areas and major customers. In accordance with SFAS No. 131, the Company's four reportable segments are Mobile Modular, TRS-RenTelco, Adler Tanks and Enviroplex. Management focuses on several key measures to evaluate and assess each segment's performance including rental revenue growth, gross margin, and income before provision for income taxes. As a separate corporate entities, Adler Tanks and Enviroplex revenues and expenses are separately maintained from Mobile Modular and TRS-RenTelco. Excluding interest expense, allocations of revenue and expense not directly associated with one of these segments are generally allocated to Mobile Modular, TRS-RenTelco and Adler Tanks, based on their pro-rata share of direct revenues. Interest expense is allocated between Mobile Modular, TRS-RenTelco and Adler Tanks based on their pro-rata share of average rental equipment at cost, accounts receivable, deferred income and customer security deposits. The Company does not report total assets by business segment. Summarized financial information for the years ended December 31, 2008, 2007 and 2006, for the Company's reportable segments is shown in the following table:

SEGMENT DATA <i>(dollar amounts in thousands)</i>	<u>Mobile Modular</u>	<u>TRS- RenTelco</u>	<u>Adler Tanks</u>	<u>Enviroplex¹</u>	<u>Consolidated</u>
Year Ended December 31, 2008					
Rental Revenues	\$ 103,236	\$ 92,982	\$ 1,018	\$ —	\$ 197,236
Rental Related Services Revenues	31,484	2,024	572	—	34,080
Sales and Other Revenues	26,339	26,844	176	19,484	72,843
Total Revenues	161,059	121,850	1,766	19,484	304,159
Depreciation of Rental Equipment	13,311	43,599	205	—	57,115
Gross Profit	81,512	47,959	929	5,338	135,738
Interest Expense (Income) Allocation	6,694	3,663	56	(436)	9,977
Income before Provision for Income Taxes	45,537	19,062	516	2,587	67,702
Rental Equipment Acquisitions	38,437	56,631	46,432	—	141,500
Accounts Receivable, net (period end)	51,042	22,916	6,524	5,530	86,011
Rental Equipment, at cost (period end)	503,678	255,778	46,288	—	805,744
Rental Equipment, net book value (period end)	376,606	129,573	46,059	—	552,238
Utilization (period end) ²	81.0%	64.0%	70.3%		
Average Utilization ²	81.6%	68.1%	70.3%		

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEGMENT DATA (Continued) <i>(dollar amounts in thousands)</i>	<u>Mobile Modular</u>	<u>TRS- RenTelco</u>	<u>Adler Tanks</u>	<u>Enviroplex¹</u>	<u>Consolidated</u>
Year Ended December 31,					
2007					
Rental Revenues	\$ 100,541	\$ 84,776	\$ —	\$ —	\$ 185,317
Rental Related Services Revenues	32,982	1,731	—	—	34,713
Sales and Other Revenues	30,003	19,727	—	10,649	60,379
Total Revenues	163,526	106,234	—	10,649	280,409
Depreciation of Rental Equipment	12,383	39,259	—	—	51,642
Gross Profit	83,777	43,643	—	3,136	130,556
Interest Expense (Income) Allocation	7,575	3,705	—	(561)	10,719
Income before Provision for Income Taxes	49,164	19,730	—	917	69,811
Rental Equipment Acquisitions	33,752	68,230	—	—	101,982
Accounts Receivable, net (period end)	40,928	21,777	—	4,356	67,061
Rental Equipment, at cost (period end)	475,077	232,349	—	—	707,426
Rental Equipment, net book value (period end)	358,017	127,997	—	—	486,014
Utilization (period end) ²	82.8%	69.3%	—	—	—
Average Utilization ²	82.3%	68.3%	—	—	—
2006					
Rental Revenues	\$ 91,124	\$ 77,816	\$ —	\$ —	\$ 168,940
Rental Related Services Revenues	29,913	1,686	—	—	31,599
Sales and Other Revenues	34,938	19,196	—	12,393	66,527
Total Revenues	155,975	98,698	—	12,393	267,066
Depreciation of Rental Equipment	10,898	34,455	—	—	45,353
Gross Profit	76,252	41,642	—	3,932	121,826
Interest Expense (Income) Allocation	7,907	3,385	—	(532)	10,760
Income before Provision for Income Taxes	43,439	19,827	—	2,301	65,567
Rental Equipment Acquisitions	53,196	51,336	—	—	104,532
Accounts Receivable, net (period end)	35,314	19,652	—	4,868	59,834
Rental Equipment, at cost (period end)	451,828	186,673	—	—	638,501
Rental Equipment, net book value (period end)	343,590	107,752	—	—	451,342
Utilization (period end) ²	81.4%	66.4%	—	—	—
Average Utilization ²	82.9%	69.6%	—	—	—

¹ Gross Enviroplex sales revenues were \$21,674, \$11,755 and \$15,017 in 2008, 2007 and 2006, respectively, which includes inter-segment sales to Mobile Modular of \$2,190, \$1,106 and \$2,624, which are eliminated in consolidation.

² Utilization is calculated each month by dividing the cost of rental equipment on rent by the total cost of rental equipment excluding new equipment inventory and accessory equipment. The average utilization for the period is calculated using the average costs of rental equipment.

No single customer accounted for more than 10% of total revenues during 2008, 2007 and 2006. In addition, total foreign country customers and operations accounted for less than 10% of the Company's revenues and long-lived assets for the same periods.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures. The Company's Management under the supervision and with the participation of the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining "disclosure controls and procedures" (as defined in rules promulgated under the Securities Exchange Act of 1934, as amended) for the Company. Based on their evaluation of the Company's disclosure controls and procedures as of December 31, 2008, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective to ensure that the information required to be disclosed by the Company in this Annual Report on Form 10-K was (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and (ii) accumulated and communicated to the Company's management, including the Company's principal executive and principal financial officers, to allow timely decisions regarding required disclosure. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008 excluded the business of Adler Tank Rentals, LLC, which business was acquired pursuant to an asset purchase transaction which was closed in December 2008. Adler Tank Rentals is a wholly-owned subsidiary of the Company whose total assets and total net revenues represented less than 12% of consolidated total assets and less than 1% of consolidated net revenues, respectively, of the Company as of and for the year ended December 31, 2008. Companies are allowed to exclude acquisitions from their assessment of internal control over financial reporting during the first year of an acquisition while integrating the acquired company under guidelines established by the Securities and Exchange Commission.

Changes in Internal Control over Financial Reporting. During the last quarter of the Company's fiscal year ended December 31, 2008, there were no changes in the Company's internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on the Effectiveness of Controls. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and the CEO and CFO have concluded that these controls and procedures are effective at the "reasonable assurance" level.

Management's Assessment of Internal Control. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008, is discussed in the Management's Report on Internal Control Over Financial Reporting included on page 54.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

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 4, 2009, which will be filed with the Securities and Exchange Commission by not later than April 30, 2009.

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 4, 2009, which will be filed with the Securities and Exchange Commission by not later than April 30, 2009.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

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 4, 2009, which will be filed with the Securities and Exchange Commission by not later than April 30, 2009.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.

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 4, 2009, which will be filed with the Securities and Exchange Commission by not later than April 30, 2009.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

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 4, 2009, which will be filed with the Securities and Exchange Commission by not later than April 30, 2009.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

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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2. Financial Statement Schedules. None

3. Exhibits. See Index of Exhibits on page 82 of this report.

Schedules and exhibits required by Article 5 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: February 25, 2009

MCGRATH RENTCORP

by: /s/ Dennis C. Kakures

DENNIS C. KAKURES

Chief Executive Officer, President and Director
(Principal Executive Officer)

by: /s/ Keith E. Pratt

KEITH E. PRATT

Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

by: /s/ David M. Whitney

DAVID M. WHITNEY

Vice President and Controller
(Principal Accounting 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.

<i>Name</i>	<i>Title</i>	<i>Date</i>
/s/ William J. Dawson _____ WILLIAM J. DAWSON	Director	February 25, 2009
/s/ Robert C. Hood _____ ROBERT C. HOOD	Director	February 25, 2009
/s/ Dennis C. Kakures _____ DENNIS C. KAKURES	Chief Executive Officer, President and Director	February 25, 2009
/s/ Robert P. McGrath _____ ROBERT P. McGRATH	Chairman of the Board	February 25, 2009
/s/ Dennis P. Stradford _____ DENNIS P. STRADFORD	Director	February 25, 2009
/s/ Ronald H. Zech _____ RONALD H. ZECH	Director	February 25, 2009

McGRATH RENTCORP

INDEX TO EXHIBITS

<u>Number</u>	<u>Description</u>	<u>Method of Filing</u>
3.1	Articles of Incorporation of McGrath RentCorp	Filed as exhibit 19.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended 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 as exhibit 3.1.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (filed March 31, 1998), and incorporated herein by reference.
3.2	Amended and Restated By-Laws of McGrath RentCorp, as amended and restated on June 4, 2008	Filed as exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (filed August 7, 2008), and incorporated herein by reference.
4.1	Note Purchase and Private Shelf Agreement between the Company and Prudential Investment Management, Inc., as placement agent, dated June 2, 2004.	Filed as exhibit 10.12 to the Company's Current Report on Form 8-K (filed June 10, 2004) and incorporated herein by reference.
4.1.1	Amendment to Note Purchase and Private Shelf Agreement between the Company and Prudential Investment Management, Inc., as placement agent, effective as of July 11, 2005.	Filed as exhibit 10.19 to the Company's Current Report on Form 8-K (filed July 15, 2005) and incorporated herein by reference.
4.1.2	Amendment to Note Purchase and Private Shelf Agreement between the Company and Prudential Investment Management, Inc., as placement agent, effective as of October 20, 2008.	Filed herewith.
4.1.3	Multiparty Guaranty between Enviroplex, Inc., Mobile Modular Management Corporation, Prudential Investment Management, Inc., and such other parties that become Guarantors thereunder, dated June 2, 2004.	Filed as exhibit 10.13 to the Company's Current Report on Form 8-K (filed June 10, 2004) and incorporated herein by reference.
4.1.4	Release from Obligations (TRS-RenTelco Inc.) related to the Note Purchase and Private Shelf Agreement dated June 2, 2004 by and among the Company, certain parties thereto, and Prudential Investment Management, Inc.	Filed as exhibit 10.15 to the Company's Quarterly Report on Form 10-Q (filed August 3, 2006) and incorporated herein by reference.
4.1.5	Indemnity, Contribution and Subordination Agreement between Enviroplex, Inc., Mobile Modular Management Corporation, the Company and such other parties that become Guarantors thereunder, dated June 2, 2004.	Filed as exhibit 10.14 to the Company's Current Report on Form 8-K (filed June 10, 2004) and incorporated herein by reference.
4.2.	Credit Agreement dated as of May 14, 2008 among the Company, Bank of America, N.A. as Administrative Agent, Swing line Lender and L/C Issuer, and the Other Lenders Party thereto	Filed as exhibit 10.1 to the Company's Current Report on Form 8-K (filed May 15, 2008) and incorporated herein by reference.
4.2.1	Guaranty dated as of May 14, 2008 among each Subsidiary of the Company in favor of Bank of America, N.A., in its capacity as the administrative agent for the Lenders	Filed as exhibit 10.2 to the Company's Current Report on Form 8-K (filed May 15, 2008) and incorporated herein by reference.
4.3	\$5,000,000 Committed Credit Facility Letter Agreement between the Company and Union Bank of California, N.A., dated as of June 26, 2008.	Filed as exhibit 10.1 to the Company's Current Report on Form 8-K (filed June 27, 2008) and incorporated herein by reference.
4.3.1	\$5,000,000 Credit Line Note, dated June 26, 2008.	Filed as exhibit 10.2 to the Company's Current Report on Form 8-K (filed June 27, 2008) and incorporated herein by reference.
10.1	McGrath RentCorp 1998 Stock Option Plan as amended and restated on November 22, 2002	Filed as exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (filed March 20, 2003), and incorporated herein by reference.

<u>Number</u>	<u>Description</u>	<u>Method of Filing</u>
10.1.1	Exemplar Incentive Stock Option for Employees Under the 1998 Stock Option Plan	Filed as exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 (filed November 12, 1998), and incorporated herein by reference.
10.1.2	Exemplar Non-Qualified Stock Option for Directors under the 1998 Stock Option Plan	Filed as exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 (filed November 12, 1998), and incorporated herein by reference.
10.2	Exemplar Form of the Directors, Officers and Other Agents Indemnification Agreements	Filed as exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 (filed March 18, 2002), and incorporated herein by reference.
10.3	McGrath RentCorp Employee Stock Ownership Plan, as amended and restated on December 31, 2008	Filed herewith.
10.3.1	McGrath RentCorp Employee Stock Ownership Trust Agreement, as amended and restated on December 31, 2008	Filed herewith.
10.4	McGrath RentCorp 2007 Stock Incentive Plan	Filed as exhibit 10.12 to the Company's Quarterly Report on from 10-Q for the quarter ended June 30, 2007 (filed August 2, 2007), and incorporated herein by reference.
10.4.1	Form of 2007 Stock Incentive Plan Stock Option Award and Agreement	Filed as exhibit 10.12.1 to the Company's Quarterly Report on from 10-Q for the quarter ended June 30, 2007 (filed August 2, 2007), and incorporated herein by reference.
10.4.2	Form of 2007 Stock Incentive Plan Non-Qualified Stock Option Award and Agreement	Filed as exhibit 10.12.2 to the Company's Quarterly Report on from 10-Q for the quarter ended June 30, 2007 (filed August 2, 2007), and incorporated herein by reference.
10.5	Asset Purchase Agreement, dated as of November 26, 2008, by and between Abrams Rentals LLC, Adler Tank Rentals, LLC each of Steve Adler and Howard Werner, and the Company	Filed as exhibit 2.1 to the Company's Current Report on Form 8-K (filed December 12, 2008) and incorporated herein by reference
21.1	List of Subsidiaries	Filed herewith.
23	Written Consent of Grant Thornton LLP	Filed herewith.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith.
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith.

Prudential Investment Management, Inc.
and each of the Purchasers listed on Annex A hereto
c/o Prudential Capital Group
Four Embarcadero Center, Suite 2700
San Francisco, CA 94111-4180

October 20, 2008

McGrath RentCorp
5700 Las Positas Road
Livermore, California 94551

Re: Amendment to Note Purchase and Private Shelf Agreement

Ladies and Gentlemen:

Reference is made to that certain Note Purchase and Private Shelf Agreement, dated as of June 2, 2004 (as amended, restated or supplemented from time to time, the "**Note Purchase Agreement**"), by and between McGrath RentCorp (the "**Company**"), on the one hand, and Prudential Investment Management, Inc. ("**PIM**") and each of the Persons listed on Annex A hereto (collectively, the "**Purchasers**"), on the other hand. Capitalized terms used and not otherwise defined herein shall have the meanings provided in the Note Purchase Agreement.

Pursuant to the request of the Company and the provisions of paragraph 11C of the Note Purchase Agreement, subject to the terms and conditions of this letter agreement and subject to the consummation prior to March 31, 2009 of the Company's acquisition of Adler Tank Rentals, Inc., the Purchasers hereby amend the Note Purchase Agreement, as follows:

1. A new definition for the term "Adler Tank Acquisition" is added to paragraph 10B and placed in its proper alphabetical order, as follows:

""**Adler Tank Acquisition**" shall mean the acquisition of Adler Tank Rentals, Inc."

2. The definition of the term "Tangible Net Worth" is amended to insert the following language immediately prior to the period: "; provided, that, notwithstanding anything to the contrary in clause (ii) of this definition, Tangible Net Worth shall include all intangible assets associated with the Adler Tank Acquisition".

Limitation of Amendments. Each of the amendments set forth in this letter agreement shall be limited precisely as written and shall not be deemed to be (a) an amendment, consent or waiver of any other terms or conditions of the Note Purchase Agreement or any other document related to the Note Purchase Agreement, or (b) a consent to any future amendment, consent or waiver. Except as expressly set forth in this

letter agreement, the Note Purchase Agreement and the documents related to the Note Purchase Agreement shall continue in full force and effect. The Company hereby acknowledges and reaffirms all of its obligations and duties under the Note Purchase Agreement and the Notes.

Representations and Warranties. The Company hereby represents and warrants as follows (both before and after giving effect to the effectiveness of this letter agreement): (i) No Default or Event of Default has occurred and is continuing; (ii) the Company's execution, delivery and performance of the Note Purchase Agreement, as modified by this letter agreement, have been duly authorized by all necessary corporate action and do not and will not require any registration with, consent or approval of, or notice to or action by, any Person (including any governmental authority) in order to be effective and enforceable; (iii) the Note Purchase Agreement, as modified by this letter agreement, constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms except as the enforceability thereof may be limited by bankruptcy, insolvency or other similar laws of general application relating to or affecting the enforcement of creditors' rights or by general principles of equity; and (iv) each of the representations and warranties set forth in paragraph 8 of the Note Purchase Agreement is true, correct and complete as of the date hereof (except to the extent such representations and warranties expressly relate to another date, in which case such representations and warranties are true, correct and complete as of such other date).

Conditions Precedent. This letter agreement shall become effective on the date on which (i) each of the Purchasers shall have received a fully executed counterpart of this letter agreement from the Company and the Guarantors, and (ii) Bingham McCutchen LLP shall have received from the Company its accrued and unpaid legal fees and expenses, including, without limitation, its fees and expenses in connection with the preparation, negotiation, execution and delivery of this letter agreement.

Counterparts. This document may be executed in multiple counterparts, which together shall constitute a single document.

Governing Law. THIS AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE INTERNAL LAWS OF THE STATE OF NEW YORK, EXCLUDING CHOICE-OF-LAW PRINCIPLES OF THE LAW OF SUCH STATE THAT WOULD PERMIT THE APPLICATION OF THE LAWS OF A JURISDICTION OTHER THAN SUCH STATE.

[Remainder of page intentionally left blank; next page is signature page]

If you are in agreement with the foregoing, please sign the enclosed counterpart of this letter agreement in the space indicated below and return it to the Purchasers at the above address whereupon, subject to the conditions expressed herein, it shall become a binding agreement between the Company, on the one hand, and the Purchasers, on the other hand.

Sincerely,

GIBRALTAR LIFE INSURANCE CO., LTD.

**By: Prudential Investment
Management (Japan), Inc., as
Investment Manager**

**By: Prudential Investment
Management, Inc., as Sub-Advisor**

By: _____
Name:
Title: Vice President

**THE PRUDENTIAL INSURANCE COMPANY OF
AMERICA**

By: _____
Name:
Title: Vice President

BAYSTATE INVESTMENTS, LLC

**By: Prudential Private Placement Investors, L.P., as
Investment Advisor**

**By: Prudential Private Placement Investors, Inc.,
General Partner**

By: _____

Name:

Title: Vice President

UNITED OF OMAHA LIFE INSURANCE COMPANY

**By: Prudential Private Placement Investors, L.P., as
Investment Advisor**

**By: Prudential Private Placement Investors, Inc.,
General Partner**

By: _____

Name:

Title: Vice President

FARMERS NEW WORLD LIFE INSURANCE COMPANY

**By: Prudential Private Placement Investors, L.P., as
Investment Advisor**

**By: Prudential Private Placement Investors, Inc.,
General Partner**

By: _____

Name:

Title: Vice President

FORTIS BENEFITS INSURANCE COMPANY

**By: Prudential Private Placement Investors, L.P., as
Investment Advisor**

**By: Prudential Private Placement Investors, Inc.,
General Partner**

By: _____

Name:

Title: Vice President

PRUCO LIFE INSURANCE COMPANY

By: _____

Name:

Title: Vice President

**AMERICAN BANKERS LIFE ASSURANCE COMPANY
OF FLORIDA, INC.**

**By: Prudential Private Placement Investors, L.P., as
Investment Advisor**

**By: Prudential Private Placement Investors, Inc.,
General Partner**

By: _____

Name:

Title: Vice President

Accepted and agreed to
as of the date first
appearing above:

MCGRATH RENTCORP

By: _____
Name:
Title:

Each of the undersigned acknowledges, consents to, and agrees with the modifications effected by this letter agreement and further reaffirms all of its obligations under the Multiparty Guaranty and the other Transaction Documents to which it is a party:

ENVIROPLEX, INC.

By: _____
Name:
Title:

MOBILE MODULAR MANAGEMENT CORPORATION

By: _____
Name:
Title:

TRS-RENTELCO INC.

By: _____
Name:
Title:

ANNEX A

PURCHASERS

Gibraltar Life Insurance Co., Ltd.
The Prudential Insurance Company of America
Baystate Investments, LLC
United of Omaha Life Insurance Company
Farmers New World Life Insurance Company
Fortis Benefits Insurance Company
Pruco Life Insurance Company
American Bankers Life Assurance Company of Florida, Inc.

**McGRATH RENTCORP
EMPLOYEE STOCK OWNERSHIP PLAN**

(Amended and Restated Effective as of January 1, 2008)

Prepared: November 24, 2008
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McGRATH RENTCORP
EMPLOYEE STOCK OWNERSHIP PLAN

Section 1. NATURE OF PLAN.

(a) The purpose of this Plan is to enable participating Employees of the Company and of any participating affiliates to share in the growth and prosperity of the Company and to provide Participants with an opportunity to accumulate capital for their future economic security. A primary purpose of the Plan is to enable Participants to acquire a proprietary interest in the Company. Consequently, the Plan is designed to be primarily invested in Employer Securities over the life of the Plan.

(b) This Plan, originally effective as of January 1, 1985, and amended from time to time, and amended and restated effective as of September 12, 2003, is amended and herein restated effective as of January 1, 2008 (except that provisions which are required to be effective before this date in accordance with certain provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (“EGTRRA”), are applicable to all Plan Years beginning after December 31, 2001, unless an earlier or later effective date is required pursuant to a statute or Treasury Regulation or as stated in the Plan document). This Plan reflects the applicable provisions of EGTRRA and shall be construed in accordance with EGTRRA and the guidance issued thereunder. This restated Plan reflects the applicable provisions of the Pension Protection Act of 2006 (“PPA ‘06”), as well as the applicable provisions of the final regulations under Code Section 415 (the “Final § 415 Regulations”). The Plan is intended to qualify as an Employee Stock Ownership Plan, as defined in Section 4975(e)(7) of the Internal Revenue Code (hereinafter referred to as the “Code”). In addition, in accordance with Section 54.4975-11(a)(5) of the Treasury Regulations, this Plan also forms a portion of the Plan which is a Stock Bonus Plan, which is intended to qualify under Section 401(a) of the Code. This Plan is an amendment and restatement of the Company’s Employee Stock Ownership Plan, originally effective as of January 1, 1985.

All Trust assets acquired under this Plan as a result of Contributions, income and other additions to the Trust will be administered, distributed, forfeited and otherwise governed by the provisions of this Plan which is administered by the Committee for the exclusive benefit of Participants in the Plan and their Beneficiaries. It is intended that all benefits, rights and features of this Plan be uniformly available to all Participants.

Section 2. DEFINITIONS.

In this Plan, whenever the context so indicates, the singular or plural number shall each be deemed to include the other, and the capitalized words shall have the following meanings:

ACCOUNT

One of several Accounts maintained to record the interest of a Participant in the Plan.

AFFILIATED COMPANY

Any Company which is a member of a controlled group of corporations (as defined in Section 414(b) of the Code) which includes the Employer, any trade or business (whether or not incorporated) which is under common control (as defined in Section 414(c) of the Code) with the Employer, any affiliated service group which includes the Employer (as defined in Section 414(m) of the Code), and any other entity required to be aggregated with the Employer under Section 414(o) of the Code. For purposes of Code Section 415 limits, the definition of Affiliated Company shall be expanded in accordance with Code Section 415(h).

ALTERNATE PAYEE

A spouse, former spouse, child or other dependent of a Participant who is recognized by a Domestic Relations Order as having a right to receive all or a portion of the benefits otherwise payable to a Participant. See Section 18(e) of the Plan.

ANNIVERSARY DATE

The 31st day of December of each year.

ANNUAL ADDITIONS

The aggregate of amounts credited to a Participant's Accounts each year from Contributions, Forfeitures, and a Participant's voluntary contributions (if any) under all defined contribution plans of an Employer or Affiliated Company. Amounts allocated to an individual medical account (as defined in Section 415(l)(2) of the Code) which is part of a pension or annuity plan maintained by the Company shall be treated as an Annual Addition. Any amounts attributable to postretirement medical benefits allocated to the separate account of a Key Employee (as defined in Section 419A(d)(3) of the Code) under any Welfare Benefit Plan (as defined in Section 419(e) of the Code) shall be treated as an Annual Addition. A restored Forfeiture, a transfer from another qualified pension plan, a rollover contribution (if any) shall not be counted as an Annual Addition. For purposes of Code Section 415 limits, the definition of Annual Additions shall be expanded in accordance with Code Section 415(h).

Notwithstanding the foregoing, Contributions which are applied to the payment of interest on a Securities Acquisition Loan and Forfeitures of Employer Securities purchased with the proceeds of a Securities Acquisition Loan shall be excluded if no more than one third (1/3) of the Contributions deductible under Section 404(a)(9) of the Code for that year is allocated to the Accounts of Highly Compensated Employees.

BENEFICIARY

The person or persons entitled to receive any benefits under the Plan in the event of a Participant's death.

BOARD OF DIRECTORS

The board of directors of the Company.

BREAK IN SERVICE

A Plan Year during which a Participant has not completed more than 500 Hours of Service; provided, however, that for purposes of Section 3 of the Plan, the Eligibility Computation Period will be used to measure Breaks in Service.

CODE

The Internal Revenue Code of 1986, as amended from time to time.

COMMITTEE

Also known as the “Plan Committee”, appointed by the Board of Directors to administer the Plan, subject to such limitations as are set forth under this Plan.

COMPANY

McGrath RentCorp, a California corporation, a public company whose shares are traded on the Nasdaq system under the symbol “MGRC”.

COMPANY STOCK

Shares of any class of stock, preferred or common, voting or nonvoting, which are issued by the Company or any Affiliated Company, which meet the requirements of Section 407(d) of ERISA and Section 409(l) of the Code.

COMPANY STOCK ACCOUNT

The Account of a Participant which is credited with the shares of Company Stock purchased and paid for by the Trust or contributed to the Trust.

CONTRIBUTIONS

Employer contributions which are deductible by an Employer under Section 404(a) of the Code.

COVERED COMPENSATION

The Total Compensation (as defined in Section 2 of the Plan) paid to a Participant by the Employer for each Limitation Year, including any salary deferrals under Sections 401(k) and 125 of the Code, but excluding reimbursement or other expense allowances, fringe benefits (cash and noncash), moving expenses, welfare benefits, and deferred compensation except deferrals under Sections 401(k) and 125 of the Code.

Notwithstanding the foregoing definition, solely for purposes of the Plan’s Limitation Year beginning after June 30, 2007 (the “First Limitation Year”), the definition of Covered Compensation shall be applied in accordance with the definition of Total Compensation, as amended for the final regulations under Code Section 415 unless the application of the amended definition of Total Compensation would constitute an impermissible cutback of benefits in violation of Code Section 411(d)(6).

Notwithstanding the foregoing, the Covered Compensation of each Participant taken into account in determining allocations for any Plan Year shall not exceed \$230,000, as adjusted for cost-of-living increases in accordance with Section 401(a)(17)(B) of the Code. Covered Compensation means compensation during the Plan Year (the determination period). The cost-of-living adjustment in effect for a calendar year applies to annual compensation for the determination period that begins with or within such calendar year.

DIRECT ROLLOVER

A payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

DISABILITY

If a Participant terminated employment because of a total and permanent disability, the Participant will be given a Disability Retirement without regard to age or length of service, and the Participant's Plan Benefit shall be one hundred percent (100%) vested. Disability shall mean the Participant's entitlement to Social Security disability benefits.

DISTRIBUTEES

Any Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's or former Employee's spouse or former spouse who is the Alternate Payee under a qualified domestic relations order, as defined in section 414(p) of the Code, are Distributees with regard to the interest of the spouse or former spouse. In accordance with PPA '06, for purposes of distributions made after December 31, 2006, a Distributee shall include a non-spouse Beneficiary.

DOMESTIC RELATIONS ORDER

Any judgment, decree, or order (including approval of a property settlement agreement) which is made pursuant to a State domestic relations law and which relates to the provision of child support, alimony payments or marital property rights to a spouse, former spouse, child or other dependent of a Participant. See Section 18(e) of the Plan.

EFFECTIVE DATE

The Effective Date of this amended and restated Plan is January 1, 2008 (except that provisions which are required to be effective before this date in accordance with certain provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), intended as good faith compliance with the requirements of EGTRRA, are applicable to all Plan Years beginning after December 31, 2001, unless an earlier or later effective date is required pursuant to a statute or Treasury Regulation or as stated in the Plan document).

ELIGIBILITY COMPUTATION PERIOD

To determine Years of Service and Breaks in Service for purposes of eligibility, the initial twelve-consecutive-month period shall commence on the date the Employee first performs an Hour of Service for the Company. The second twelve-consecutive-month period shall be the Plan Year which commences prior to the end of the initial twelve-consecutive-month period, regardless of whether the Employee is entitled to be credited with 1,000 Hours of Service during the initial eligibility computation period. An Employee who is credited with 1,000 Hours of Service in both the initial eligibility computation period and the first Plan Year which commences prior to the first anniversary of the Employee's initial eligibility computation period will be credited with two Years of Service for purposes of eligibility to participate. All subsequent computation periods will continue to be determined on the Plan Year.

ELIGIBLE RETIREMENT PLAN

An individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, an annuity plan described in Section 403(a) of the Code, or a qualified trust described in Section 401(a) of the Code, that accepts the Distributee's Eligible Rollover Distribution. However, in the case of an Eligible Rollover Distribution to the surviving spouse (or after December 31, 2006, a non-spouse Beneficiary), an Eligible Retirement Plan is an individual retirement account or individual retirement annuity.

The definition of Eligible Retirement Plan shall also mean an annuity contract described in Section 403(b) of the Code and an eligible plan under Section 457(b) of the Code which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan. In accordance with PPA '06, for purposes of distributions made after December 31, 2007, the definition of Eligible Retirement Plan shall also include a Roth IRA as described in Section 408A(e) of the Code. The definition of Eligible Retirement Plan shall also apply in the case of a distribution to a surviving spouse (or in accordance with PPA '06, after December 31, 2006, a non-spouse Beneficiary), or to a spouse or former spouse who is the Alternate Payee under a qualified Domestic Relation Order, as defined in Section 414(p) of the Code.

ELIGIBLE ROLLOVER DISTRIBUTION

Any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include: any hardship distribution described in Section 401(k)(2)(B)(i)(IV), any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated Beneficiary, or for a specified period of ten (10) years or more; any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; and the portion of any distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to Employer Securities).

Notwithstanding the foregoing, for purposes of Section 14(h) of the Plan, a portion of a distribution shall not fail to be an Eligible Rollover Distribution merely because the portion consists of after-tax employee contributions which are not includable in gross income. However, such portion may be transferred only to an individual retirement account or annuity described in Section 408(a) or (b) of the Code, or to a qualified defined contribution plan described in Section 401(a) or 403(a) of the Code that agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includable in gross income and the portion of such distribution which is not so includable. In accordance with PPA '06, effective for all years beginning December 31, 2006, after-tax contributions from a qualified retirement plan may be rolled over to a defined benefit plan or a 403(b) tax-sheltered annuity as described in Code Section 402(c)(2)(A).

EMPLOYEE

A person, employed by an Employer, any portion of whose income is subject to withholding of income tax and/or for whom Social Security contributions are made by an Employer, as well as any other person qualifying as a common law employee of an Employer. Employee shall include Leased Employees unless: (i) such Employee is covered by a money purchase pension plan providing: (1) a nonintegrated Employer contribution rate of at least ten percent (10%) of compensation, as defined in Section 415(c)(3) of the Code, but including amounts contributed pursuant to a salary reduction agreement which are excludable from the Employee's gross income under Section 125, Section 402(e)(3), Section 402(h) or Section 403(b) of the Code; (2) immediate participation; and (3) full and immediate vesting; and (ii) Leased Employees do not constitute more than twenty percent (20%) of the Company's nonhighly compensated work force.

"Employee" shall not include any individual who is either (i) engaged by the Company as an independent contractor or (ii) not reflected on the payroll records of the Company as a common law employee solely on account of the reclassification of such individual by the Internal Revenue Service, a court or administrative agency as a common law employee.

EMPLOYER

McGrath RentCorp, a California corporation, and any Affiliated Company. A "Participating Employer" is an Employer which has been designated by the Board of Directors of the Company as an Employer participating in the Plan. See Section 20(a) of the Plan.

EMPLOYER SECURITIES

Common stock issued by the Company or any Affiliated Company, which meets the requirements of Section 407(d) of ERISA and Section 409(l) of the Code, having a combination of voting power and dividend rights equal to (i) that class of common stock of the Company having the greatest voting power and (ii) that class of common stock of the Company having the greatest dividend rights.

EMPLOYMENT COMMENCEMENT DATE

The date on which the Employee shall first perform an Hour of Service for the Employer.

ENTRY DATE

The first day of January and the first day of July of each year.

ERISA

The Employee Retirement Income Security Act of 1974, as amended from time to time.

FISCAL YEAR

The annual accounting period adopted by the Company for federal income tax purposes.

FORFEITURES

The portion of a Participant's Accounts which does not become part of the Participant's Plan Benefit. See Section 13 of the Plan.

HIGHLY COMPENSATED EMPLOYEE

The term "Highly Compensated Employee" shall mean: (a) a Highly Compensated Former Employee of the Company as well as (b) a Highly Compensated Current Employee. The term "Highly Compensated Current Employee" shall mean any Employee who:

- (A) was a five percent (5%) owner at any time during the year or the preceding year, or
- (B) for the preceding year, had Total Compensation from the Company and/or from an Affiliated Company in excess of \$105,000 (indexed at such time and in such manner as the Secretary of the Treasury may provide), and was in the top-paid group of Employees (i.e., was among the top twenty percent (20%) of Employees in compensation) for such preceding year.

The determination of who is a Highly Compensated Employee, including the determination of the number and identity of Employees in the top-paid group, will be made in accordance with the provisions of Section 414(q) of the Code and the regulations thereunder.

A former employee shall be treated as a "Highly Compensated Former Employee" if such employee was a Highly Compensated Employee when he separated from service or was a Highly Compensated Employee at any time after attaining age fifty-five (55).

HOOR OF SERVICE

(a) Each hour for which an Employee is paid, or entitled to payment, for the performance of duties for the Employer or any Affiliated Company during the applicable computation period.

(b) Each hour for which an Employee is paid, or entitled to payment, by the Employer or any Affiliated Company on account of a period of time during which no duties are performed (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty or leave of absence. Notwithstanding the preceding sentence, (1) no more than 501 Hours of Service will be credited under this paragraph (b) to an Employee on account of any single continuous period during which the Employee performs no duties (whether or not such period occurs in a single computation period); (2) an hour for which an Employee is directly or indirectly paid, or entitled to payment, during a period in which no duties are performed, will not be credited to the Employee if such payment is made or due under a plan maintained solely for the purpose of complying with applicable workmen's compensation, unemployment compensation or disability insurance laws; and (3) Hours of Service will not be credited for a payment which solely reimburses an Employee for medical or medically related expenses incurred by the Employee. For purposes of this paragraph (b), a payment shall be deemed to be made by or due from an Employer or an Affiliated Company regardless of whether such payment is made by or due from the Employer or an Affiliated Company directly or indirectly through, among others, a trust fund, or insurer, to which the Employer or an Affiliated Company contributes or pays premiums and regardless of whether contributions made or due to the trust fund, insurer or other entity are for the benefit of particular Employees or are on behalf of a group of Employees in the aggregate.

(c) Each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the Employer or an Affiliated Company.

(d) The determination of Hours of Service for reasons other than the performance of duties, and the crediting of Hours of Service to computation periods, shall be in accordance with U.S. Department of Labor Regulations Section 2530.200b-2 (b) and (c). There shall be no duplication of Hours of Service under any of the foregoing provisions.

(e) In the case of a salaried Employee who is not paid on an hourly basis, Hours of Service shall be based on any available records which accurately reflect the actual number of hours worked by such Employee. If such records do not exist, such Employee shall be credited with Hours of Service on the basis of 45 hours for each week for which the Employee would be credited with at least one Hour of Service.

(f) For purposes of determining whether a Participant has incurred a one-year Break in Service, a Participant will be credited with Hours of Service for (i) a leave of absence covered by the Family and Medical Leave Act of 1993, or (ii) certain periods of absence from work by reason of the Participant's pregnancy, the birth of a Participant's child, the adoption of a Participant's child, or caring for a Participant's child during the period immediately following the birth or adoption of such child. If the Participant's normal work hours are known, such Participant will be credited with the number of hours that normally would have been credited for such absence. If the Participant's normal work hours are not known, such Participant will be credited with eight Hours of Service for each normal workday during such absence. Not more than 501 Hours of Service shall be credited for such purposes in the Plan Year in which such absence commences if the Participant would otherwise incur a Break in Service in such Plan Year; otherwise, such Hours of Service shall be credited in the following Plan Year if such absence continues in such Plan Year.

INDEPENDENT FIDUCIARY

The term Independent Fiduciary shall refer to any entity or individual which is unrelated to any part of the Plan or Trust and which may be appointed from time to time by the Board of Directors to act on behalf of the Plan and/or Trust, or for such other purposes as the Board of Directors may determine to be in the best interest of the Plan and/or Trust.

INELIGIBLE EMPLOYEE

See Section 3 of the Plan.

LEASED EMPLOYEE

Any person (other than an Employee of the Company) who pursuant to an agreement between the Company and any other person ("leasing organization") has performed services for the Company (or for the Company and related persons determined in accordance with Section 414(n)(6) of the Code) on a substantially full-time basis for a period of at least one (1) year, and such services are performed under primary direction or control by the Company. Contributions or benefits provided a Leased Employee by the leasing organization which are attributable to services performed for the Company shall be treated as provided by the Company.

LIMITATION YEAR

For purposes of the limitations imposed by Section 415 of the Code, the Limitation Year shall be the Plan Year.

NORMAL RETIREMENT AGE

The date on which a Participant attains age sixty-five (65) or the fifth (5th) anniversary of the date the Participant commenced participation in this Plan, whichever is later.

OTHER INVESTMENTS ACCOUNT

The Account of a Participant which is credited with a share of the net income (or loss) of the Trust and Contributions and Forfeitures in other than Company Stock and which is debited with payments made to pay for Company Stock.

PARTICIPANT

Any Employee who is participating in this Plan as defined in Section 3 of the Plan or former Employee for whom an Account is maintained. A Participant ceases to be a Participant when such Participant's Account is closed after all amounts have been distributed or Forfeited (in accordance with Section 13 of the Plan).

PLAN

The McGrath RentCorp Employee Stock Ownership Plan, which includes the Plan and Trust Agreement.

PLAN ADMINISTRATOR

The Company shall serve as the Plan Administrator.

PLAN BENEFIT

The vested amount, as defined in Sections 12 and 13 of the Plan, of a Participant's Accounts.

PLAN YEAR

The twelve (12) month period ending on each Anniversary Date.

QUALIFIED ELECTION PERIOD

The six (6) Plan Year period beginning with the first Plan Year in which the Participant first became a Qualified Participant. See Section 17(a) of the Plan.

QUALIFIED EMPLOYER SECURITIES

Employer Securities which are issued by a domestic C corporation that has no securities outstanding that are readily tradable on an established securities market, have been held for at least three (3) years by the seller and were not received by the seller in a distribution from a plan qualified under Section 401(a) or in a transfer pursuant to an option or other right to acquire stock under Section 83, 422, 422A, 423 or 424 of the Code. See Section 6(d) of the Plan.

QUALIFIED PARTICIPANT

Any Participant who has attained age fifty-five (55) and has completed ten (10) years of participation under the Plan. See Section 17(a) of the Plan.

QUALIFIED REPLACEMENT PROPERTY

Any stock, bond, debenture, note, or other evidence of indebtedness issued by a domestic corporation (other than the Employer corporation or any corporation which is a member of a parent-subsidiary controlled group which includes the Employer corporation) which does not, for the taxable year preceding the taxable year in which such security is purchased, have passive investment income exceeding twenty-five percent (25%) of the gross receipts of such corporation for such year. See Section 6(d) of the Plan.

RETIREMENT

Separation from service after attaining Normal Retirement Age or due to Disability.

SECURITIES ACQUISITION LOAN

A loan, also called an 'Exempt Loan', which is used to purchase Employer Securities as described in Subsection 6(c) of the Plan and is in accordance with Treasury Regulation § 54.4975-7(b)(1)(ii) and (iii).

STOCK BONUS PLAN

The portion of the Plan, which in accordance with Treasury Regulation § 54.4975-11(a)(5), is designed to qualify as a stock bonus plan and is subject to the rules pertaining to a stock bonus plan under Section 401(a) of the Code.

SUSPENSE ACCOUNT

The Suspense Account maintained by the Trust to which shall be credited all shares of Employer Securities purchased with the proceeds of a Securities Acquisition Loan.

TOTAL COMPENSATION

For purposes of Section 415 of the Code and the Top Heavy provisions in Section 21 of this Plan,

(a) The term "Total Compensation" includes:

(1) The Employee's wages, salaries, fees for professional services, and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the Employer maintaining the Plan to the extent that the amounts are includable in gross income (including, but not limited to, commissions paid salesmen, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses, fringe benefits, and reimbursements or other expense allowances under a nonaccountable plan (as described in Section 1.62-2(c) of the regulations under Section 62 of the Code).

Total Compensation also includes Code Section 132(f) elective reductions, elective deferrals to Section 401(k) plans and similar arrangements (for example, Employer contributions under a salary reduction arrangement to purchase a Code Section 403(b) annuity), elective contributions to Code Section 457 nonqualified deferred compensation plans and salary reductions made to a cafeteria plan.

Notwithstanding the foregoing, for Limitation Years beginning on or after July 1, 2007, the term Total Compensation also includes "Post-Separation Pay" paid by the Employer on behalf of the Employee during the "Post-Separation Payment Period", as such terms are defined herein. Post-Separation Pay includes (i) payment for regular services during the Employee's regular working hours, or compensation for services outside the Employee's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar payments which would have been paid to the Employee prior to a severance from employment if the Employee had continued in employment with the Employer; (ii) payment for unused accrued bona fide sick, vacation, or other leave, but only

if the Employee would have been able to use the leave if employment had continued; and (iii) amounts received by an Employee pursuant to a nonqualified unfunded deferred compensation plan, but only if the payment would have been paid to the Employee at the same time if the Employee had continued in employment with the Employer and only to the extent that the payment is includible in the Employee's gross income. The Post-Separation Payment Period is defined as the period not exceeding the later of 2 1/2 months after severance from employment with the Employer maintaining the Plan or the end of the Limitation Year that includes the date of severance from employment with the Employer maintaining the Plan.

(2) In the case of an Employee who is an employee within the meaning of Section 401(c)(1) of the Code and the regulations thereunder, the Employee's earned income (as described in Section 401(c)(2) of the Code and the regulations thereunder).

(3) Amounts described in Sections 104(a)(3), 105(a) and 105(h) of the Code, but only to the extent that these amounts are includable in the gross income of the Employee.

(4) Amounts paid or reimbursed by the Employer for moving expenses incurred by an Employee, but only to the extent that at the time of the payment it is reasonable to believe that these amounts are not deductible by the Employee under Section 217 of the Code.

(5) The value of a nonqualified stock option granted to an Employee by the Employer, but only to the extent that the value of the option is includable in the gross income of the Employee for the taxable year in which granted.

(6) The amount includable in the gross income of an Employee upon making the election described in Section 83(b) of the Code.

(7) For all Limitation Years beginning on or after July 1, 2007, foreign compensation paid to an individual is includible as Total Compensation regardless of the fact that those amounts are not includible in the individual's gross income on account of the location of the services. The determination of whether an amount is treated as Total Compensation is made without regard to the exclusions from gross income under IRC Sections 872, 893, 894, 911, 931, and 933.

(8) For all Limitation Years beginning on or after July 1, 2007, amounts that are includible in the gross income of an Employee under the rules of section 409A or section 457(f)(1)(A) or because the amounts are constructively received by the Employee.

(b) The term “Total Compensation” does not include items such as:

- (1) Employer contributions made on behalf of an Employee to a simplified employee pension plan described in Code Section 408(k) are not considered as compensation for the taxable year in which contributed. Additionally, any distributions from a plan of deferred compensation are not considered as compensation for Section 415 purposes, regardless of whether such amounts are includable in the gross income of the Employee when distributed. However, any amounts received by an Employee pursuant to an unfunded nonqualified plan may be considered as compensation for Code Section 415 purposes in the year such amounts are includable in the gross income of the Employee.
- (2) Amounts realized from the exercise of a nonqualified stock option, or when restricted stock (or property) held by an Employee either becomes freely transferable or is no longer subject to a substantial risk of forfeiture (under Section 83 of the Code).
- (3) Amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option.
- (4) Other amounts which receive special tax benefits, such as premiums for group term life insurance (but only to the extent that the premiums are not includable in the gross income of the Employee), or contributions made by an Employer (not under a salary deferral agreement) towards the purchase of an annuity contract described in Section 403(b) of the Code (only if the contributions are excludable from the gross income of the Employee).

(5) Other items of remuneration that are similar to any of the items listed in paragraphs (b)(1) through (b)(4) of this section.

(6) For all Limitation Years beginning on or after July 1, 2007, restorative payments are not counted as Annual Additions in any Limitation Year. Restorative payments are payments made to restore plan losses resulting from a fiduciary breach where there is a reasonable risk of liability for breach of fiduciary duty under Title I of ERISA (other than a failure to timely remit participant contributions), as well as a reasonable risk of liability for breach of fiduciary duty under other applicable federal or state law. Restorative payments do not include payments to make up for market fluctuations, payments to cover early termination or redemption fees in the case of a change in investment funds, or other payments not made on account of a reasonable risk of liability for breach of fiduciary duty.

TRUST

The Trust created by the Trust Agreement entered into between the Company and the Trustee.

TRUST AGREEMENT

The agreement between the Company and the Trustee or any successor Trustee establishing the Trust and specifying the duties of the Trustee.

TRUSTEE

The Trustee (or Trustees) designated by the Company's Board of Directors (and any successor Trustee). The Board of Directors may provide that any person or group of persons may serve in more than one fiduciary capacity with respect to the Plan (including service as both Trustee and Committee member).

UNITS

A Participant shall be entitled to one (1) Unit for each one thousand dollars (\$1,000) of Covered Compensation and two (2) Units for each Year of Service. Notwithstanding the foregoing, Highly Compensated Employees shall not receive Unit credits for any Years of Service.

VALUATION DATE

The Anniversary Date coinciding with or immediately preceding the date of actual distribution of Plan Benefits. For purposes of the top heavy provisions of this Plan, the Valuation Date is the most recent Anniversary Date within a twelve (12)-month period ending on a Determination Date (as defined in Section 21) of the Plan.

YEAR OF SERVICE

For purposes of vesting under Section 13 of the Plan, all Plan Years beginning on or after the Effective Date during which an Employee has completed 1,000 or more Hours of Service, including any Plan Year during which such Employee has completed 1,000 or more Hours of Service but has not yet become eligible to participate in the Plan.

For purposes of eligibility, a twelve (12) month period beginning on an Employee's Employment Commencement Date during which an Employee is credited with not less than 1,000 Hours of Service.

In addition, for vesting purposes, a Participant, upon attaining age twenty-one (21), will be credited with all Years of Service with the Company between the ages of eighteen (18) and twenty-one (21) after the Effective Date of the Plan.

Years of Service also include, for purposes of vesting, all Years of Service prior to the Effective Date of this restated Plan recognized under the Company's existing Employee Stock Ownership Plan.

Solely for purposes of allocations based on Units (in accordance with Section 11 of the Plan), a Year of Service shall include all years of employment with the Employer prior to the Effective Date in which the Employee completed 1,000 or more Hours of Service within a Company fiscal year.

Notwithstanding the foregoing, service credit with respect to qualified military service will be provided in accordance with Section 414(u) of the Code.

Section 3. ELIGIBILITY.

Each Employee shall become eligible to participate in the Plan from and after the Entry Date coinciding with or next following the date on which the Employee has completed a Year of Service, measured during the Eligibility Computation Period, provided the Employee has attained age twenty-one (21).

All Employees who were eligible to participate in the Company's Employee Stock Ownership Plan on the Effective Date of this restated Plan are automatically eligible to participate in the restated Plan.

Upon the Employee so becoming eligible, participation shall be based on the total Covered Compensation paid to the Employee from and after the Entry Date.

The Employer may establish a uniform and nondiscriminatory policy under which Employees may elect voluntarily not to participate in the Plan. The election not to participate must be communicated to the Employer, in writing, at least thirty days before the beginning of a Plan Year for which the election will commence; unless such notice is waived by the Employer. Employees who have made the election not to participate, shall be permitted to revoke the election, provided the revocation election is communicated to the Employer, in writing, at least thirty days before the beginning of a Plan Year for which the revocation will take effect.

The following Employees shall not be eligible to participate in the Plan, and shall be known as "Ineligible Employees":

- An Employee whose terms of employment with the Employer are covered by a collective bargaining agreement;
- An Employee who is a Leased Employee; and
- An Employee who is a nonresident alien who does not receive any earned income (as defined in Code § 911(d)(2)) from the Employer which constitutes United States source income (as defined in Code § 861(a)(3)).

If an Ineligible Employee, who has otherwise met the Plan's eligibility requirements as described above, and would otherwise have become eligible to participate in the Plan, shall go from a classification of an Ineligible Employee to an eligible Employee, such Employee shall become eligible to participate in the Plan on the date such Employee becomes an eligible Employee or, if later, the date the Employee would have otherwise entered the Plan had the Employee always been an eligible Employee.

Section 4. PARTICIPATION IN ALLOCATION OF BENEFITS.

(a) Participation.

Except in the case of death, Disability or Retirement, a Participant will share in the allocation of Contributions and Forfeitures only if the Participant is still employed by the Employer on the last day of the Plan Year and has accumulated 1,000 or more Hours of Service during the Plan Year. Except in the case of death, Disability or Retirement, a Participant who accumulates less than 1,000 Hours of Service during a Plan Year will not share in the allocation of Contributions and Forfeitures under Section 11 for such Plan Year, and shall become an inactive Participant for that Plan Year.

A Participant reemployed following a Break in Service shall again resume participation in the Plan as of the date of reemployment for purposes of participating in Contributions and Forfeitures, subject to the requirements of this Subsection 4(a).

(b) Leave of Absence.

A Participant's employment is not considered terminated for purposes of the Plan if the Participant has been on leave of absence with the consent of the Company, provided that the Participant returns to the employ of the Company within thirty (30) days after the leave (or within such longer period as may be prescribed by law). Leave of absence shall mean a leave granted by the Company, in accordance with rules uniformly applied to all Participants, for reasons of health or public service or for reasons determined by the Company to be in its best interests. Solely for purposes of preventing a Break in Service, a Participant on such leave of absence shall be credited with eight (8) Hours of Service for each business day of the leave. A Participant who does not return to the employ of the Company within the prescribed time following the end of the leave of absence shall be deemed to have terminated employment as of the date when the leave began, unless such failure to return was the result of death, Disability or Retirement.

(c) Omission of Eligible Employee.

If, in any Plan Year, any Employee who should be included as a Participant in the Plan is erroneously omitted, and discovery of such omission is not made until after a Contribution by the Employer for the Plan Year has been made, the Employer shall make a subsequent Contribution with respect to the omitted Employee in the amount which the Company would have contributed if he or she had not been omitted. Such Contribution shall be made regardless of whether or not it is deductible in whole or in part in any taxable year under the applicable provisions of the Code.

(d) Inclusion of Ineligible Employee.

If, in any Plan Year, any Employee who should not have been included as a Participant in the Plan is erroneously included, and discovery of such incorrect inclusion is not made until after a Contribution by the Company for the year has been made, the Company shall not be entitled to recover the Contribution made with respect to the ineligible Employee regardless of whether a deduction is allowable with respect to such Contribution. In such event, the amount contributed with respect to the ineligible Employee shall constitute a Forfeiture for the Plan Year in which the discovery is made.

(e) Uniformed Services Participants.

Notwithstanding the foregoing, participation in the allocation of Contributions and Forfeitures with respect to a Participant's qualified military service will be provided in accordance with Section 414(u) of the Code.

(f) Suspended Participation.

A Participant who ceases to be an eligible Employee as described in Section 3 of the Plan, shall become a suspended Participant. During the period of suspension, no amounts shall be credited to the Participant's Accounts which are based on the Participant's Covered Compensation from and after the date of suspension. However, amounts previously credited to a Participant's Accounts shall continue to vest in accordance with the provisions of this Plan.

Section 5. CONTRIBUTIONS.

(a) Amount of Contribution.

Contributions shall be made to the Trust in such amounts as may be determined by the Company's Board of Directors, provided that such Contributions shall not exceed the maximum amounts deductible under Section 404(a)(3) and Section 404(a)(9) of the Code. Notwithstanding the foregoing, Contributions may not be made in amounts which would permit the limitation described in Section 11(b) of the Plan to be exceeded.

(b) Time for Making Contribution.

Contributions for each year, as determined by the Company's Board of Directors, shall be paid to the Trust not later than the due date for filing the Company's federal income tax return for that year, including extensions of such date.

(c) Form of Contribution.

Contributions may be paid in cash or shares of Company Stock as the Company's Board of Directors may from time to time determine in their discretion. Shares of Company Stock will be valued at their then fair market value. In addition, Employer Contributions may also be made in the form of forgiveness of any indebtedness owing by the Trust to an Employer, or by an Employer's payment of indebtedness owing by the Trust to any third party.

Section 6. INVESTMENT OF TRUST ASSETS.

(a) Authorized Investments.

Employer Contributions in cash received by the Trust will be applied to pay any outstanding obligations of the Trust incurred for the purchase of Employer Securities, or may be applied to purchase additional shares of Company Stock from current shareholders, treasury shares, or newly issued shares from the Company. Shares of Company Stock and other property will be valued at their then fair market value. In the case of a security for which there is a generally recognized market, fair market value shall be the price of the security prevailing on a national securities exchange which is registered under Section 6 of the Securities Exchange Act of 1934, or which has been listed for more than one month on an electronic quotation system administered by a national securities association registered under such Act. If the security is not so traded on a national securities exchange or so listed on such an electronic quotation system, fair market value shall be a price not less favorable to the Plan than the offering price for the security as established by the current bid and asked prices quoted by persons independent of the issuer and a party in interest.

(b) Investment Duties.

All investments will be made by the Trustee in accordance with the provisions of the Trust. All purchases of Company Stock shall be made at no more than fair market value, as determined by the Trustee. In the case of a purchase from a disqualified person (as defined in Code Section 4975(e)), all purchases of Company Stock shall be made at prices which do not exceed the fair market value of such shares as of the date of the transaction.

(c) Plan Loans.

(1) The Trustee may, as directed by the Company, incur Plan loans from time to time to carry out the purposes of the Trust, provided that the loan is a Securities Acquisition Loan, and the terms of the loan must comply with the following requirements: Any such loan shall be for a specified term, shall bear a reasonable rate of interest, and shall provide that the only assets of the Plan that may be given as collateral on such loan are qualifying Employer Securities of two classes: those acquired with the proceeds of the loan and those that were used as collateral on a prior Securities Acquisition Loan repaid with the proceeds of the current

Securities Acquisition Loan. Any such loan shall be primarily for the benefit of Plan Participants and their Beneficiaries. Any Securities Acquisition Loan made pursuant to this Subsection 6(c) of the Plan, shall provide that at the time the loan is made, the interest rate for the loan and the price of the Employer Securities to be acquired with the loan proceeds should not be such that Plan assets might be drained off.

No person entitled to payment under the Securities Acquisition Loan shall have any right to assets of the Plan other than: (i) collateral given for such loan, (ii) Contributions (other than contributions of employer securities) that are made under a Plan to meet its obligations under such loan, and (iii) earnings attributable to such collateral and the investment of such Contributions. Any pledge of Employer Securities must provide for the release of shares so pledged pursuant to either the 'General Rule' or the 'Special Rule' set forth in Section 7 of the Plan. Shares of Employer Securities released from the Suspense Account shall be allocated to Participants' accounts in shares of stock or other nonmonetary units. Repayments of principal and interest on any Securities Acquisition Loan shall be made by the Trustee (as directed by the Committee) only from Contributions in cash that are made to the Trust to meet its obligations under such Securities Acquisition Loan, or from any earnings attributable to the collateral given for such loan and the investment of Contributions made to the Trust in cash to meet its obligations under the loan. Such Contributions and earnings shall be accounted for separately in the books of accounts of the Plan until the Securities Acquisition Loan is repaid. The proceeds of a Securities Acquisition Loan may be used only to acquire Employer Securities, to repay such loan or to repay a prior Securities Acquisition Loan. The Plan may not obligate itself to acquire securities from a particular security holder at an indefinite time determined upon the happening of an event such as the death of the holder. The protections and rights described in Section 16 of the Plan are nonterminable. Should this Plan cease to be an employee stock ownership plan, or should the Securities Acquisition Loan be repaid, all Employer Securities will continue to be subject to the provisions of Section 16 of the Plan. If securities acquired with the proceeds of a Securities Acquisition Loan available for distribution consist of more than one class, a Distributee must receive substantially the same portion of each such class.

(2) In the event of default upon a Securities Acquisition Loan, the value of Plan assets transferred in satisfaction of the loan must not exceed the amount of default. If the lender is a disqualified person (as defined in Code Section 4975(e)), a loan must provide for a transfer of Plan assets upon default only upon and to the extent of the failure of the Plan to meet the payment schedule of the loan. For purposes of this paragraph, the making of a guarantee does not make a person a lender.

(d) Nonrecognition of Gain.

(1) There shall be no recognition of gain upon a sale of Employer Securities to the Plan if (i) the seller has held such Securities for at least three (3) years, (ii) after the purchase the Plan owns at least thirty percent (30%) of each class of outstanding stock of the Company (other than preferred stock described in Section 1504(a)(4) of the Code), or thirty percent (30%) of the total value of all outstanding stock of the Company (other than preferred stock described in Section 1504(a)(4) of the Code), (iii) the seller purchases Qualified Replacement Property within three (3) months prior to the sale or within twelve (12) months after the sale, (iv) on or before the time (including extension) for filing an income tax return, the seller files with the IRS a written statement verified by the Company, regarding the terms of the sale, and (v) the Plan complies with the allocation requirements set forth in Section 11(b)(5) of the Plan.

(2) If, during the three-year period after the Plan acquires Qualified Employer Securities in a transaction in which gain is not recognized, the Plan disposes of part or all of such Qualified Employer Securities, the Company shall be liable for a tax equal to ten percent (10%) of the amount realized upon the disposition, unless such disposition is necessary to meet the diversification requirements of Section 17(a) of the Plan, or unless such disposition is made to a Participant (or the Participant's Beneficiary) by reason of death, Disability, Retirement after age fifty-nine and one-half (59 1/2), or a separation from service which results in a one-year Break in Service.

Section 7. ALLOCATIONS TO ACCOUNTS.

(a) Individual Accounts.

The Committee shall establish and maintain individual Accounts for each Participant in the Plan. Individual Accounts shall also be maintained for all former Participants who still have an interest in the Plan. Except as provided in Section 17(a) of the Plan, such individual Accounts shall not require a segregation of the Trust assets and no Participant, former Participant or Beneficiary shall acquire any right to or interest in any specific asset of the Trust as a result of the allocation provided for in the Plan.

(b) Company Stock Account.

(1) The Company Stock Account of each Participant will be credited as of each Anniversary Date with the Participant's allocated share of Company Stock (including fractional shares) purchased and paid for by the Trust or contributed in kind by the Company, with Forfeitures of Company Stock and with stock dividends on Company Stock held in the Participant's Company Stock Account.

A Participant shall have one Company Stock Account for Employer Securities acquired by the Trust prior to January 1, 1987 and one Company Stock Account for Employer Securities acquired by the Trust after December 31, 1986.

Employer Securities acquired by the Trust with the proceeds of a Securities Acquisition Loan shall be credited to a Suspense Account. For each Plan Year during the duration of the loan, the number of shares of Employer Securities to be released from said Suspense Account and allocated to the Company Stock Accounts of Participants shall be determined pursuant to either the "General Rule" or the "Special Rule" described below as selected by the Committee for each Securities Acquisition Loan. Once the Committee has selected either the General Rule or the Special Rule, that Rule shall be used exclusively for the allocation of shares of Employer Securities purchased with the proceeds of a particular Securities Acquisition Loan.

(A) General Rule: For each Plan Year during the duration of the loan, the Committee shall withdraw from the Suspense Account a number of shares of Employer Securities equal to the total number of such shares held in the Suspense Account immediately prior to the withdrawal multiplied by a fraction:

- (i) The numerator of which is the amount of principal and interest paid for the Plan Year; and
- (ii) The denominator of which is the sum of the numerator plus the principal and interest to be paid for all future years.

(B) Special Rule:

(i) For each Plan Year, the Trustee shall withdraw from the Suspense Account a number of shares of Employer Securities equal to the total number of such shares held in the Suspense Account immediately prior to the withdrawal multiplied by a fraction:

- (aa) The numerator of which is the amount of principal paid for the Plan Year; and
- (bb) The denominator of which is the sum of the numerator plus the principal to be paid for all future Plan Years.

(ii) The Trustee may select the Special Rule only if:

(aa) The Securities Acquisition Loan provides for annual payments of principal and interest at a cumulative rate which is not less rapid at any time than level annual payments of such amounts for ten (10) years;

(bb) The interest included in any payment is disregarded only to the extent that it would be determined to be interest under standard loan amortization tables; and

(cc) By reason of a renewal, extension or refinancing, the sum of the expired duration of the original loan, any renewal period, any extension period and the duration of any new loan does not exceed 10 years.

(C) In determining the number of shares to be released for any Plan Year under either the General Rule or the Special Rule:

(i) The number of future years under the Loan must be definitely ascertainable and must be determined without taking into account any possible extensions or renewal periods;

(ii) If the Loan provides for a variable interest rate, the interest to be paid for all future Plan Years must be computed by using the interest rate applicable as of the end of the Plan Year for which the determination is being made; and

(iii) If the Employer Securities allocated to the Suspense Account includes more than one class of shares, the number of shares of each class to be withdrawn for a Plan Year from the Suspense Account must be determined by applying the applicable fraction provided for above to each such class.

(2) Allocations of Company Stock shall be reflected separately for each class of such stock, and the Committee shall maintain adequate records of the aggregate cost basis of Company Stock allocated to each Participant's Company Stock Account.

(c) Other Investments Account.

The Other Investments Account of each Participant will be credited with all cash, Contributions and Forfeitures, and will be credited (or debited) as of each Anniversary Date with the Participant's share of the net income (or loss) of the Trust, and with cash dividends on Company Stock (not distributed to Participants) nor used to make payments on a Securities Acquisition Loan. The Other Investments Account of each Participant will be credited (or debited) as of each Anniversary Date with the Participant's share of the unrealized appreciation (or depreciation) in the value of Trust assets other than Company Stock. It will be debited for any payments for purchases of Company Stock or for repayment of debt (including principal and interest) incurred for the purchase of Employer Securities.

Section 8. EXPENSES OF THE PLAN AND TRUST.

Normal brokerage charges which are included in the cost of securities purchased (or charged to proceeds in the case of sales) shall be paid by the Trust. The Company shall pay all expenses in connection with the design, establishment, termination of the Plan, as well as the Trustee's fees. Subject to Section 2.06 of the Trust Agreement, the Trust shall pay all costs of administering the Plan and Trust, unless such expenses are paid by the Company (within sixty (60) days after receipt of an invoice therefore).

Section 9. VOTING COMPANY STOCK.

For so long as the Company has a “registration-type class of securities”, as such phrase is defined at Section 409(e)(4) of the Code, each Participant shall be entitled to direct the Trustee as to the voting of any Company Stock credited to such Participant’s Company Stock Account with respect to any issue on which the Company shareholders holding like securities are entitled to vote (as more fully set forth in the Trust Agreement). The Trustee shall vote in its sole discretion any unallocated Company Stock held by the Trust and any shares of Company Stock which are credited to the Company Stock Account of a Participant with respect to which no voting instructions are received, pursuant to Section 2.04(i) of the Trust Agreement.

Section 10. DISCLOSURE TO PARTICIPANTS.

(a) Summary Plan Description.

The Committee shall furnish each Participant (and each Beneficiary receiving benefits under the Plan) with a summary plan description in such form and at such times as required by Sections 102(a)(1) and 104(b)(1) of ERISA and the Department of Labor Regulations thereunder. Such summary plan description shall be updated from time to time as required under ERISA and the Department of Labor regulations thereunder.

(b) Summary Annual Report.

The Committee shall furnish each Participant (and each Beneficiary receiving benefits under the Plan) with a summary annual report of the Plan in such form and at such times as required by Section 104(b)(3) of ERISA and the Department of Labor Regulations thereunder.

(c) Annual Statement.

As soon as possible after each Anniversary Date, Participants will receive a written statement of their Accounts showing as of that Anniversary Date:

- (1) The balance in each of their Accounts as of the preceding Anniversary Date.
- (2) The amount of Contributions and Forfeitures allocated to their Accounts for the year.
- (3) The adjustments to their Accounts to reflect their share of dividends and the income and expenses of the Trust for the year.
- (4) The new balances in each of their Accounts, including the number of shares of Company Stock.
- (5) The vested percentage of their Plan Benefit.

Upon the discovery of any error or miscalculation in an Account, the Committee shall correct the same insofar as, in the Committee's discretion, correction is feasible. Statements to Participants are for reporting purposes only, and no allocation, valuation or statement shall, by itself, vest any right or title in any part of the Trust fund.

(d) Notice of Rollover Treatment.

The Committee shall, when making any distribution which qualifies as a qualifying rollover distribution under Section 402(c) or Section 401(a)(31) of the Code, provide a written notice to the recipient which explains the provisions of Sections 402(c) and 401(a)(31) under which such distribution will not be subject to current tax if transferred to an Eligible Retirement Plan. In the case of a distribution under Section 402(c), such notice shall be given not less than thirty (30) days nor more than ninety (90) days (or, in accordance with PPA '06, effective after December 31, 2006, 180 days) before the distribution date. If the distribution is one to which Sections 401(a)(11) and 417 of the Internal Revenue Code do not apply, such distribution may commence less than thirty (30) days after the notice required under Section 1.411(a)(11)(c) of the Income Tax Regulations is given, provided that:

(1) the Committee clearly informs the Participant that the Participant has a right to a period of at least thirty (30) days after receiving the notice to consider the decision of whether or not to elect a distribution (and, if applicable, a particular distribution option), and

(2) the Participant, after receiving the notice, affirmatively elects a distribution.

(e) Additional Disclosure.

The Committee shall make available for examination by any Participant (or Beneficiary) copies of the summary plan description, the Plan, the Trust Agreement and the latest annual report of the Plan filed with the Department of Labor. Upon written request of any Participant (or Beneficiary), the Committee shall furnish copies of such documents and may make a reasonable charge to cover the cost of furnishing such copies, as provided in regulations of the Department of Labor.

Section 11. ALLOCATION OF CONTRIBUTIONS AND FORFEITURES.

(a) Allocation of Contributions and Forfeitures.

The allocation will be made as follows:

(1) Contributions.

Contributions will be allocated as of each Anniversary Date among the Accounts of Participants who meet the requirements of Section 4 of the Plan, in the proportion that each such Participant's Units bear to the total Units of all such Participants for that year. Shares of Employer Securities released from the Suspense Account (as provided in Section 7(b) of the Plan) by reason of the payment of interest and principal on a Securities Acquisition Loan shall be allocated as of each Anniversary Date among the Accounts of Participants in the Plan who meet the requirements of Section 4 of the Plan, in the proportion that each such Participant's Units bear to the total Units of all such Participants for that year.

(2) Forfeitures.

Forfeitures shall be allocated in the same manner as Contributions are allocated.

(3) Net Income (or Loss) of the Trust.

The net income (or loss) of the Trust will be determined annually as of each Anniversary Date. Any stock dividends on shares of Company Stock held by the Trust shall be allocated to each Participant's Company Stock Account in the ratio in which the cumulative number of shares allocated to the Participant's Company Stock Account as of the preceding Anniversary Date bears to the total cumulative number of shares of Company Stock allocated to the Company Stock Accounts of all Participants as of that date.

Trust income attributable to any cash dividends paid on allocated shares of Company Stock and not used to make payments on a Securities Acquisition Loan shall be allocated to each Participant's Other Investments Account in the ratio in which the cumulative number of shares allocated to the Participant's Company Stock Account as of the preceding Anniversary Date bears to the total cumulative number of shares of Company Stock allocated to the Company Stock Accounts of all Participants as of that date. Trust income attributable to allocated shares of Company Stock and used to make payments on a Securities Acquisition

Loan, shall release shares of Employer Securities from the Suspense Account. Such shares shall be allocated to each Participant's Company Stock Account in the ratio in which the cumulative number of shares allocated to the Participant's Company Stock Account as of the preceding Anniversary Date bears to the total cumulative number of shares of Company Stock allocated to the Company Stock Accounts of all Participants as of that date. However, in the case of cash dividends on allocated shares, Employer Securities in an amount equal to such cash dividends will be allocated to such Participants for the year in which such cash dividends would otherwise have been allocated to such Participants. Trust income attributable to any cash dividends paid on unallocated shares of Company Stock and not used to make payments on a Securities Acquisition Loan, shall be allocated to each Participant's Other Investments Account in accordance with Subsection 11(a)(1) of the Plan. Trust income attributable to cash dividends paid on unallocated shares of Company Stock and used to make payments on a Securities Acquisition Loan, shall release shares of Employer Securities which shall be allocated to Participant's Company Stock Account in accordance with Subsection 11(a)(1) of the Plan.

Trust income attributable to any gain from the sale of unallocated shares of Employer Securities shall be allocated to each Participant's Other Investments Account in the proportion that each such Participant's Units for the Plan Year bear to the total Units of all such Participants for that Plan Year. All other net income (or loss) will be allocated to each Participant's Other Investments Account in the ratio in which the balance of the Participant's Other Investments Account on the preceding Anniversary Date bears to the sum of the balances of the Other Investments Accounts of all Participants on that date. For this purpose, Account balances shall be reduced by amounts distributed to Participants during the Plan Year.

The net income (or loss) includes the increases (or decreases) in the fair market value of assets of the Trust, interest, dividends, other income and expenses attributable to assets in the Other Investments Accounts since the preceding Anniversary Date. Net income (or loss) does not include the interest paid under any installment contract for the purchase of Company Stock by the Trust or on any loan obtained by the Trust to purchase Company Stock. Notwithstanding the foregoing, no income (or loss) shall be allocated to a terminated Participant's Account for the Plan Year in which the Participant receives final distribution of the Plan Benefit.

(b) Allocation Limitations.

(1) Except to the extent permitted under Section 414(v) of the Code, if applicable, the Annual Addition that may be contributed or allocated to a Participant's Account under the Plan for any Limitation Year shall not exceed the lesser of:

- (i) \$46,000, as adjusted for increases in the cost-of-living under Section 415(d) of the Code, or
- (ii) 100 percent of the Participant's Total Compensation for the Limitation Year.

The compensation limit referred to in (ii) shall not apply to any Contribution for medical benefits after separation from service (within the meaning of Section 401(h) or Section 419(A)(f)(2) of the Code) which is otherwise treated as an Annual Addition.

A Participant's allocable share of Contributions applied to the payment of interest on a Securities Acquisition Loan and Forfeitures of Employer Securities purchased with the proceeds of a Securities Acquisition Loan shall not be included as an Annual Addition (in accordance with Code Section 415(c)(6)), provided that no more than one-third ($\frac{1}{3}$) of the Contribution for that year is allocated to the Accounts of Highly Compensated Employees.

The Annual Additions under Section 11(b) with respect to Employer Securities released from the Suspense Account (by reason of Contributions used for payments on a Securities Acquisition Loan) and allocated to Participants' Company Stock Accounts shall be based upon the lesser of (A) the amount of such Contributions, or (B) the fair market value of such Employer Securities (determined by an Independent Appraiser) as of the Allocation Date. Annual Additions shall not include any allocation attributable to proceeds from the sale of Employer Securities by the Trust or to appreciation (realized or unrealized) in the fair market value of Company Stock.

(2) If an Employer is contributing to another defined contribution plan, as defined in Section 414(i) of the Code, for Employees of the Company or any Affiliated Company, some or all of whom may be Participants in this Plan, then any such Participant's Annual Additions in such other plan shall be aggregated with the Participant's Annual Additions derived from this Plan for purposes of the limitation in Paragraph (1) of this Subsection.

(3) If, due to forfeitures, reasonable error in estimating compensation, or other limited facts and circumstances as determined by the Commissioner of the Internal Revenue Service, the Account balances or the Annual Additions to a Participant's Accounts would exceed the limitation described in Paragraphs (1) or (2) of this Subsection, the aggregate of the Annual Additions to this Plan shall be reduced until the applicable limitation is satisfied.

(4) If the reduction described above will be made to this Plan, the reduction shall be treated the same as Forfeitures and shall be allocated in accordance with Section 11(a)(2) of the Plan to the Accounts of Participants who are not affected by this limitation.

(5) In the case of a sale in which a seller elects nonrecognition of gain under Section 1042 of the Code, no portion of such Qualified Employer Securities (as defined in Section 2 of the Plan) may be allocated to the Account of (i) the seller (or the seller's family) during the nonallocation period or (ii) any other person who owns (after application of the family attribution rules) more than twenty-five percent (25%) of any class of outstanding Company Stock, or more than twenty-five percent (25%) of the total value of any class of outstanding Company Stock, at any time during the one (1) year period preceding the purchase of such Qualified Employer Securities by the Plan, or on any subsequent date when such Qualified Employer Securities are allocated to Participants in the Plan. For purposes of this Paragraph, the seller's family shall include the seller's spouse, ancestors, lineal descendants, and brothers and sisters. Notwithstanding the foregoing, lineal descendants of a seller shall be permitted to share in the allocation of Qualified Employer Securities, provided that the aggregate amount of such stock allocated for the benefit of all such lineal descendants does not exceed more than five percent (5%) of such stock purchased from the seller. For purposes of this Paragraph, a person shall be considered to be a more than twenty-five percent (25%) shareholder if the amount of Company Stock which such person owns (whether outright or as a Plan Participant), together with the amount of Company Stock owned by such person's spouse, children, grandchildren and parents (whether outright or as Plan Participants), exceeds twenty-five percent (25%) of any

class of outstanding Company Stock or twenty-five percent (25%) of the total value of any class of outstanding Company Stock. For purposes of this Paragraph, the “nonallocation period” means the period beginning on the date of the sale and ending on the later of (i) the date which is ten (10) years after the date of sale, or (ii) the date of the Plan allocation attributable to the final payment of the Securities Acquisition Loan.

(6) Notwithstanding the preceding provisions of this Section 11, if the allocation provided above for a Plan Year would result in an allocation to Highly Compensated Employees of more than one-third of the Contributions which are deductible under Code Section 404(a)(9) for the Plan Year, and, if as a result of such allocation, the allocation limitations described in this Subsection 11(b)(1) are exceeded, the allocation of amounts to all Highly Compensated Employees shall be reduced in proportion to their respective Covered Compensation for the Plan Year, and the allocation to Participants other than Highly Compensated Employees shall be increased in proportion to their respective Covered Compensation for the Plan Year, by such amount that will result in the final allocation to the Highly Compensated Employees of Contributions which are deductible under Code Section 404(a)(9) being equal to one-third of the total allocation of such Employer contributions to all persons eligible to share in the allocations for said Plan Year.

Section 12. DETERMINATION OF PLAN BENEFIT VESTING AT DEATH, DISABILITY OR RETIREMENT.

A Participant who, while employed with the Company, dies or attains Normal Retirement Age or incurs a Disability, will be one hundred percent (100%) vested in such Participant's Plan Benefit.

Any amount credited to a Participant's Accounts in accordance with Section 4 of the Plan for the Plan Year in which such Participant dies or attains Normal Retirement Age or incurs a Disability, shall also be nonforfeitable.

Section 13. TERMINATION OF SERVICE PRIOR TO RETIREMENT, AND FORFEITURES.

(a) Vesting Schedule.

Except as provided in Section 12 of the Plan, the vesting of such Participant's Plan Benefit will be based upon Years of Service, as defined in Section 2 of the Plan, in accordance with the following vesting schedule:

<u>Years of Service</u>	<u>Percentage of Accounts Vested</u>
Less than Three Years	0
Three Years	20
Four Years	40
Five Years	60
Six Years	80
Seven Years	100

Notwithstanding the foregoing vesting schedule, in accordance with the requirements of PPA '06, effective for all Plan Years beginning on or after January 1, 2007, provided a Participant has at least one Hour of Service under the Plan beginning on January 1, 2007, such Participant's Plan Benefit will be vested based on the following schedule:

Less than Two Years	0
Two Years	20
Three Years	40
Four Years	60
Five Years	80
Six Years	100

The computation of a Participant's nonforfeitable percentage of the Participant's interest in the Plan shall not be reduced as the result of any direct or indirect amendment to this Plan. For this purpose, the Plan shall be treated as having been amended if the Plan provides for an automatic change in vesting due to a change in top heavy status. (See Section 21(e) of the Plan). In the event that the Plan is amended to change or modify any vesting schedule, a Participant with at least three (3) Years of Service as of the expiration date of the election period may elect to have such Participant's nonforfeitable percentage computed under the Plan without regard to such amendment. If a Participant fails to make such election, then such Participant shall be subject to the new vesting schedule. The Participant's election period shall commence on the adoption date of the amendment and shall end sixty (60) days after the latest of:

- (1) the adoption date of the amendment,
- (2) the effective date of the amendment, or
- (3) the date the Participant receives written notice of the amendment from the Employer or Committee.

Notwithstanding the foregoing, pursuant to applicable Treasury Regulations, no election need be provided for any Participant whose nonforfeitable percentage under the Plan, as amended, at any time cannot be less than such percentage determined without regard to such amendment.

(b) Vesting Upon Reemployment.

If a Participant is reemployed by the Company following a Break in Service, such Participant's Accounts shall be vested as follows:

(1) Vesting of Prior Account Balances.

If a Participant has had five consecutive one-year Breaks in Service, Years of Service after such five-year period will not be taken into account for purposes of determining a Participant's vested interest in the Participant's prebreak Account balances and new Accounts will be established to record the Participant's interest in the Plan for service after such five-year period.

(2) Vesting of Subsequent Account Balances.

(A) In the case of a Participant who, at the time of a Break in Service, does not have any vested right under Paragraph (a) above, Years of Service before such Break in Service shall not be taken into account unless such Participant returns to work for the Employer and completes one (1) Year of Service. Notwithstanding the foregoing, Years of Service before such Break in Service shall not be taken into account for purposes of determining a Participant's vested interest in the Participant's postbreak Accounts if the number of consecutive one-year Breaks in Service equals or exceeds five (5) years or the aggregate number of Years of Service before such Break in Service, whichever is greater.

(B) If a Participant had any degree of vested interest at the time of the Participant's Break in Service, such Participant shall participate retroactively to the Participant's reemployment date for purposes of determining a Participant's vested interest in the Participant's postbreak Account balances. Upon resuming participation, such Participant's Years of Service shall include all Years of Service prior to the Break in Service.

(c) Forfeitures.

Forfeitures shall be charged first against a Participant's Other Investments Account, second against Company Stock which was not acquired with the proceeds of a Securities Acquisition Loan, and third against Company Stock acquired with a Securities Acquisition Loan. If a portion of a Participant's Account is to be forfeited and interests in more than one class of Employer Securities have been allocated to a Participant's Account, the Participant shall forfeit the same percentage of each such class. The disposition of such Forfeitures shall be as follows:

(1) If a Participant has incurred five consecutive one-year Breaks in Service and has not received a "cash-out distribution" (as defined below), the nonvested balance of the Participant's Accounts shall be allocated as a Forfeiture as soon as possible after the close of the Plan Year in which the Participant incurs a five-year Break in Service.

(2) If a Participant who is not one hundred percent (100%) vested receives a distribution of a Plan Benefit, which is not a "cash-out distribution" (as defined below), prior to the occurrence of a five-year Break in Service, and such Participant returns to work for the Employer, the portion of the Participant's Accounts which was not vested shall be maintained separately (from any additional contributions to this Plan) until such Participant becomes one hundred percent (100%) vested. Such Participant's vested and nonforfeitable percentage in such separate Accounts upon any subsequent termination of service shall be equal to:

$$\frac{X - Y}{100\% - Y}$$

For purposes of applying this formula, X is the vested percentage at the time of the subsequent termination, and Y is the vested percentage at the time of the prior termination. Separate Accounts shall share in the allocation of Trust income or loss on every Anniversary Date prior to Forfeiture, but such accounts shall not share in allocation of Trust income or loss on the Anniversary Date on which they are forfeited.

(3) If a Participant receives a “cash-out distribution” (as defined below), such Participant shall incur a Forfeiture immediately upon receipt of the “cash-out distribution.” The nonvested balance of the Participant’s Accounts shall be allocated as a Forfeiture as of the Anniversary Date coinciding with or following the date such Participant incurred a one-year Break in Service or received the cash-out distribution, whichever is later.

(d) Cash-Out Distribution.

If a partially vested Participant receives a cash-out distribution, the cash-out distribution will result in a Forfeiture of the nonvested portion of the Participant’s Accounts. A “cash-out distribution” is a distribution of the entire vested portion of a Participant’s Accounts that is made before the Participant incurs five (5) consecutive one-year Breaks in Service.

If any former Participant shall be reemployed by the Employer before five (5) consecutive one-year Breaks in Service, and such former Participant had received a cash-out distribution prior to reemployment, the forfeited portion of such Participant’s Accounts shall be reinstated only if the Participant repays the full amount distributed to such Participant. Such repayment must be made by the former Participant before the Participant incurs five (5) consecutive one-year Breaks in Service following the date of distribution and before the five-year anniversary of his reemployment date. In the event the former Participant does repay the full amount distributed to such Participant, the undistributed portion of the Participant’s Accounts must be restored in full, unadjusted by any gains or losses occurring subsequent to the Anniversary Date preceding the Participant’s termination. Restoration of a Participant’s Accounts shall include restoration of all Code Section 411(d)(6) protected benefits with respect to such restored amounts.

If the Participant repays the amount distributed to such Participant within the required time period, the Committee shall restore the forfeited portion of the Participant’s Accounts as of the Anniversary Date coinciding with or following the repayment. Such amount shall be restored, to the extent necessary, in the following manner:

-
- (A) first from current-year Forfeitures;
 - (B) second from current-year Trust earnings; and
 - (C) third from current-year Contributions.

To the extent the amounts described in clauses (A), (B) and (C) are insufficient to enable the Committee to make the required restoration, the Employer must contribute the additional amount necessary to enable the Committee to make the required restoration.

A terminated Participant who is zero percent (0%) vested shall be deemed to have received a cash-out distribution as of the day on which the Participant separates from service with the Employer. For purposes of applying the restoration provisions of this Paragraph, the Committee will treat a zero percent (0%) vested Participant as repaying the Participant's cash-out distribution on the first day of reemployment with the Employer.

Section 14. DISTRIBUTION OF PLAN BENEFIT.

(a) Death, Disability or Retirement.

In the event of a Participant's separation from service due to death, Disability or after attaining Normal Retirement Age, subject to Subsection 14(e) of the Plan, distribution of a Participant's Plan Benefit shall be made in a lump sum, as soon as administratively feasible, during the Plan Year which follows the close of the Plan Year in which such event occurs.

(b) Other Termination of Participation.

In the event a Participant's employment terminates for reasons other than death, Disability or prior to attaining Normal Retirement Age, subject to Subsection 14(e) of the Plan, the Participant's vested Plan Benefit will be distributed in a lump sum as soon as administratively feasible during the Plan Year which follows the close of the Plan Year in which the Participant separated from service.

Notwithstanding any of the provisions of this Subsection 14(b), the Plan shall not be required to distribute any Employer Securities acquired with the proceeds of a Securities Acquisition Loan until the close of the Plan Year in which such Securities Acquisition Loan has been repaid in full.

(c) Death Prior to Completion of Distribution.

If a Participant dies after the distribution of the Plan Benefit has commenced, the remaining portion of the Plan Benefit shall be distributed (in accordance with Subsection 15(b) of the Plan) at least as rapidly as under the method being used at the date of the Participant's death.

(d) Valuation Date.

All Accounts, other than the Company Stock Accounts, shall be valued as of the appropriate Valuation Date, as defined in Section 2 of the Plan. The Trustee may carry out other valuations from time to time as necessary. The valuation of the Company Stock Accounts shall be valued as of a date coinciding with or immediately preceding the date of actual distribution of such Company Stock Accounts. Valuation of Company Stock contributed to or purchased by the Plan shall be determined the responsibility of the Trustee and shall be made pursuant to the terms of the Trust Agreement.

(e) Consent and Notice Requirements.

Effective for all distributions made on or after March 28, 2005, if the Participant's nonforfeitable account balance exceeds one thousand dollars (\$1,000) at the time of the distribution, any distribution prior to the later of age sixty-two (62) or the Participant's Normal Retirement Age may be made only with the written consent of the Participant. For purposes of this Subsection 14(e), the distribution of a Participant's nonforfeitable account balance which does not exceed one thousand dollars (\$1,000), which is made without the Participant's consent, shall be referred to as an "involuntary distribution." For purposes of this Subsection 14(e), the Participant's nonforfeitable account balance shall be determined by including that portion of the Participant's nonforfeitable account balance, if any, attributable to any rollover contributions (and earnings allocable thereto) within the meaning of Sections 402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii), and 457(e)(16) of the Code.

The Committee shall provide the Participant with a written notice which explains the provision of Section 411(a)(11), not less than thirty (30) days nor more than ninety (90) days (or, in accordance with PPA '06, effective after December 31, 2006, 180 days) before the distribution date. If the distribution is one to which Sections 401(a)(11) and 417 of the Internal Revenue Code do not apply, such distribution may commence less than thirty (30) days after the notice required under Section 1.411(a)-11(c) of the Income Tax Regulations is given, provided that:

(1) the Committee clearly informs the Participant that the Participant has a right to a period of at least thirty (30) days after receiving the notice to consider the decision of whether or not to elect a distribution (and, if applicable, a particular distribution option), and

(2) the Participant, after receiving the notice, affirmatively elects a distribution.

Failure of a Participant to consent to an immediate distribution within the applicable time limit (other than an involuntary distribution, as defined in this Subsection 14(e)) may be treated by the Employer as an election by the Participant to defer benefits to the later of age sixty-two (62) or the Normal Retirement Date of the Participant.

(f) Required Commencement of Benefit Distribution .

(1) Distribution of a Participant's Plan Benefit shall commence not later than sixty (60) days after the Anniversary Date coinciding with or next following the latest of (1) the Participant's Retirement, (2) the tenth (10th) anniversary of the date the Participant became a Participant, or (3) the Participant's separation from service.

If the amount of a Participant's Plan Benefit cannot be determined by the Committee by the date on which a distribution is to commence, or the Participant cannot be located, distribution of the Participant's Plan Benefit shall commence within sixty (60) days after the date on which the Participant's Plan Benefit can be determined or after the date on which the Committee locates the Participant.

(2) The distribution of the Plan Benefit of any Participant who attains age seventy and one-half (70 1/2) in a calendar year shall commence not later than April 1 of the next calendar year (even if the Participant has not terminated). Effective for all Plan Years beginning on or after January 1, 1998, except in the case of a five percent (5%) owner (as defined in Section 416(i)(1)(B)(i) of the Code), distributions shall commence in accordance with Subsection 14(f)(2) above unless the Participant elects otherwise. In the event a Participant elects not to receive the distributions, or in the case of a Participant (other than a five percent (5%) owner) who has begun receiving distributions in accordance with this Subsection who elects to cease receiving such distributions, the distributions shall commence (or recommence) no later than April 1 of the calendar year following the calendar year in which the Participant separates from service with the Employer. All distributions made under this Subsection 14(f)(2) shall be determined and made in accordance with the Proposed Regulations under Section 401(a)(9), including the minimum distribution incidental benefit requirement of Section 1.401(a)(9)-2 of the Proposed Regulations.

Notwithstanding the foregoing, effective for purposes of determining required minimum distributions for calendar years beginning with the 2003 calendar year, all required minimum distributions shall be determined and made in accordance with the final regulations under Code Section 401(a)(9), including the incidental death benefit requirement in Code Section 401(a)(9)(G). Required minimum distributions will be made in accordance with Treasury Regulations 1.401(a)(9)-1 through 1.401(a)(9)-9. The provisions of this Plan reflecting Code Section 401(a)(9) shall supersede any distribution options of the Plan to the extent those other distribution provisions are inconsistent with Code Section 401(a)(9).

Notwithstanding the foregoing, effective for purposes of determining required minimum distributions for calendar years beginning with the 2003 calendar year, all required minimum distributions shall be determined and made in accordance with the final regulations under Code Section 401(a)(9), including the incidental death benefit requirement in Code Section 401(a)(9)(G). Required minimum distributions will be made in accordance with Treasury Regulations 1.401(a)(9)-1 through 1.401(a)(9)-9. The provisions of this Plan reflecting Code Section 401(a)(9) shall supersede any distribution options of the Plan to the extent those other distribution provisions are inconsistent with Code Section 401(a)(9).

(g) Undistributed Accounts.

Any part of a Participant's Company Stock Account and Other Investments Account which is retained in the Trust after the Anniversary Date coinciding with or immediately following the date on which the Participant terminates employment, shall be treated as an "Undistributed Account". In any year that a Participant maintains an Undistributed Account, the Plan Committee shall exchange any cash or other liquid assets held in the Other Investments Accounts of Participants for the shares of Company Stock held in the Undistributed Account, at an exchange rate determined based on the most recent appraised fair market value of Company Stock. Such exchange shall be made pro rata based on the Participants' Other Investments Account balances. In the event, after 1) current Plan Year debt service (in connection with an outstanding Securities Acquisition Loan), and 2) after current Plan Year

distributions are made pursuant to Section 14 of the Plan, that there is not sufficient cash or other liquid assets in the Participants' Other Investments Accounts to exchange for all of the shares of Company Stock in the Undistributed Accounts, the exchange of such cash or liquid assets (if any), shall be pro rata based upon the Company Stock held by the Undistributed Accounts. The purpose of this exchange is to assure that the Accounts of active Participants are invested in Company Stock, to the maximum extent possible within the assets available to the Trust, and to assure that the Undistributed Accounts are invested in assets other than Company Stock, to the maximum extent possible within the assets available to the Trust. To the extent an Undistributed Account is exchanged for cash as described herein, such Account will be treated as an Other Investments Account for purposes of Sections 6, 7, 11, 14 and 15 of the Plan, except that such Account will not invest in the Plan's Company Stock fund. However, except in the case of reemployment, none of the Undistributed Accounts will be credited with any further Contributions or Forfeitures.

(h) Optional Direct Transfer of Eligible Rollover Distributions.

A Distributee may elect, at the time and in the manner prescribed by the Plan Committee, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover.

(i) Lien on Distribution.

Notwithstanding anything to the contrary herein, if, at the time of distribution, a Participant is indebted to the Trust, or has retained in his or her possession money or property which properly belongs to the Trust, the Trust shall have a lien on such distribution pending the resolution of such ownership rights. The Trustee may exercise such lien either by directing the Company secretary to withhold any stock transfer of title, or by withholding distribution of any stock or the value of any stock or other assets, pending resolution of such ownership rights. Notwithstanding the foregoing, Plan Benefits under this Plan may not be assigned or alienated except to the extent allowable under Code Sections 401(a)(13) and 414(p).

Section 15. HOW PLAN BENEFIT WILL BE DISTRIBUTED.

(a) Form of Distribution.

Subject to a Participant's right to demand distribution of such Participant's Company Stock Account and Other Investments Account entirely in the form of Employer Securities, the Trustee may, after consultation with the Company, distribute such Participant's Plan Benefit entirely in cash or entirely in the form of Employer Securities, or a combination of each. Distributions made in the form of Employer Securities shall be made in the form of whole shares of Employer Securities with the value of any fractional shares paid in cash.

(b) Beneficiaries.

(1) Designation.

Distribution will be made to the Participant if living, and if not, to the Participant's Beneficiary. A Participant may designate a Beneficiary upon becoming a Participant and may change such designation at any time by filing a written designation with the Committee. Notwithstanding anything in this Section 15 to the contrary, if a Participant is married, a Participant shall not designate anyone other than the Participant's spouse as primary Beneficiary of the Participant's Plan Benefit unless such spouse consents in writing to such designation, such spouse acknowledges the effect of such election, and such writing is witnessed by a Plan representative or notary public and filed with the Plan Committee.

(2) Absence of Valid Designation.

If, upon the death of a Participant, former Participant or Beneficiary, there is no valid designation of a Beneficiary on file with the Company or the benefit is not claimed by any Beneficiary within a reasonable period of time after the death of the Participant, the benefit shall be paid to the Participant's surviving spouse. If the Participant is not married or if the Participant's spouse does not survive the Participant, the benefit shall be paid to the Participant's estate.

(c) Location of Participant or Beneficiary Unknown.

If a Participant (or Beneficiary) who is entitled to a distribution cannot be located and after the Plan Committee has made reasonable efforts to locate the Participant, the Plan Committee may choose to forfeit the Participant's Plan Benefit and treat such amounts as a Forfeiture in accordance with Section 13 of the Plan at the time specified below. The Plan Committee cannot forfeit a missing Participant's Plan Benefit (or, in the case of a deceased Participant, his or her Beneficiary) unless each of the methods described below proves ineffective in locating the missing Participant.

The search methods for the missing Participants shall be as follows:

- 1) Use of certified mail.
- 2) Check related plan records.
- 3) Check with designated Beneficiary.
- 4) Use of either Internal Revenue Service ("IRS") or Social Security Administration ("SSA") letter-forwarding service.

If the search methods listed above prove unsuccessful, the Plan Committee may forfeit the Participant's Plan Benefit. Such forfeiture will occur as of the close of the Plan Year in which the Employer has completed all four of the search methods; provided that the forfeiture will not occur prior to the close of the 60th day after the letter has been submitted under the missing participant service of the IRS or SSA.

If the Participant or Beneficiary makes a written claim for the forfeited Plan Benefits subsequent to the forfeiture, the Employer shall cause the Plan Benefit to be reinstated in the following manner:

- (A) first from current Plan Year Forfeitures;
- (B) second from current Plan Year Trust earnings; and
- (C) third from current Plan Year Contributions.

To the extent the amounts described in clauses (A), (B) and (C) are insufficient to enable the Committee to make the required restoration, the Employer must contribute the additional amount necessary to enable the Committee to make the required restoration.

(d) Facility of Payment.

When a person entitled to a distribution of benefits under the Plan is under legal disability, or, in the Committee's opinion, is in any way incapacitated so as to be unable to manage the person's financial affairs, the Committee may direct the Trustee to pay the benefits to such person's legal representative. Any payment made in accordance with the preceding sentence shall be a full and complete discharge of any liability for such payment under the Plan.

Section 16. RIGHTS AND OPTIONS ON DISTRIBUTED SHARES OF COMPANY STOCK.

(a) “Put” Option.

For so long as the Company’s shares are readily tradable on an established market, the Company shall not be required to provide the Participant or Beneficiary with an option to put the shares to the Company, in accordance with Section 409(h) of the Code.

(b) Right of First Refusal.

For so long as the Company’s shares are readily tradable on an established market, shares of Company Stock distributed by the Trustee shall not be subject to a right of first refusal, until such time as such shares are no longer readily tradable on an established market.

(c) Other Options.

No Employer Securities acquired by this Plan with the proceeds of a Securities Acquisition Loan may be subject to a put, call, buy-sell or similar arrangement while held by or when distributed from the Plan.

Section 17. SPECIAL PROVISIONS.

(a) Diversification of Investments.

Within ninety (90) days after the close of each Plan Year in the Qualified Election Period, each Qualified Participant shall be permitted to direct the Plan as to the investment of not more than twenty-five percent (25%) of the shares of Employer Securities allocated to the Participant's Company Stock Account attributable to Employer Securities which were acquired by the Plan after December 31, 1986, (including shares that the Qualified Participant previously elected to diversify pursuant to this Subsection), less the number of shares previously diversified pursuant to such Participant's election under this Subsection. In the case of the sixth (6th) year of the Qualified Election Period, the preceding sentence shall be applied by substituting "fifty percent (50%)" for "twenty-five percent (25%)." The Participant's direction shall be completed no later than ninety (90) days after the close of the ninety (90) day election period.

The Plan Committee shall offer at least three investment options (not inconsistent with regulations prescribed by the Internal Revenue Service) to each Participant who makes an election under this Subsection.

In lieu of offering such investment options, the Plan Committee may direct that all amounts subject to Participant elections under this Subsection be distributed to Qualified Participants. All such distributions shall be distributed within ninety (90) days after the close of the ninety (90) day election period and shall be made in cash. Distributions shall be made in accordance with Section 15(a) of the Plan.

In lieu of receiving a distribution under this Subsection, a Qualified Participant may direct the Plan to transfer the distribution to another qualified plan of the Company which accepts such transfers, provided that such plan permits employee-directed investments and does not invest in Employer Securities to a substantial degree. Such transfer shall be made within ninety (90) days after the close of the ninety (90) day election period.

(b) Cash Dividends.

Cash dividends, if any, on shares of Company Stock allocated to Participants' Accounts may be accumulated in the Trust or may be paid to Participants currently as determined in the sole discretion of the Company, exercised in a uniform and nondiscriminatory manner. Provided the Plan is primarily invested in Employer Securities, it is intended that the Company shall be allowed a deduction with respect to any dividends paid on allocated shares of Company Stock of any class held by the Plan on the record date to the extent such dividends are paid in cash directly to the Participants, or their Beneficiaries, or are paid to the Plan and are distributed from the Plan to the Participants or their Beneficiaries not later than ninety (90) days after the close of the Plan Year in which paid; provided, however, that the Company shall not be required to pay or distribute any dividends with respect to the nonvested portion of the Company Stock Account of a Participant who has terminated employment prior to the date such dividends are paid directly to Participants, or are distributed from the Plan to the Participants. Provided the Plan is primarily invested in Employer Securities, it is also intended that the Company shall be allowed a deduction for any dividends used to make payments on a Securities Acquisition Loan the proceeds of which were used to acquire the Employer Securities (whether or not allocated) with respect to which the dividend is paid, provided that in the case of dividends paid on allocated shares, Employer Securities in an amount equal to such dividends are allocated to such Participants for the year in which such dividends would otherwise have been allocated to such Participants. The Company shall be allowed a deduction for dividends paid only in the taxable year of the Company in which the dividend is either paid to a Participant or Beneficiary or held to make payments on a Securities Acquisition Loan.

(c) In-Service Distributions.

At the request of a Participant who is then one hundred percent (100%) vested in his or her Plan Benefit, the Committee shall direct the Trustee to distribute to the Participant an in-service distribution not to exceed one hundred percent (100%) of the Participant's accumulated Plan Benefit as then estimated by the Committee, for reason of hardship constituting immediate and heavy financial need, as provided herein.

The Committee, in its sole discretion, exercised in a uniform and nondiscriminatory manner, shall determine whether the Participant's hardship constitutes immediate and heavy financial need, based on all relevant facts and circumstances. The following are financial needs considered immediate and heavy: medical expenses (within the meaning of section 213(d) of the Code) incurred by the Participant, the Participant's spouse, or dependents; the purchase (excluding mortgage payments) of a principal residence for the Participant; payment of tuition and related educational fees for the next twelve (12) months of postsecondary education for the Participant, the Participant's spouse, children, or dependents; or the need to prevent eviction of the Participant from, or a foreclosure on the mortgage of, the Participant's principal residence. Notwithstanding the foregoing, a distribution will not be considered as necessary to satisfy an immediate and heavy financial need of the Participant unless (i) the Participant has obtained all distributions, other than hardship distributions, and all nontaxable loans under all plans maintained by the Employer, and (ii) the distribution is not in excess of the amount of an immediate and heavy financial need.

If any in-service distribution is made, the Participant's Plan Benefit when computed will be reduced by the amount of such advance.

Section 18. ADMINISTRATION.

(a) Named Fiduciaries for Administration of Plan and for Investment and Control of Plan Assets.

(1) Board of Directors.

In addition to its powers as settler to amend or terminate the Plan, as set forth in Section 19, the Board of Directors shall have the following duties and responsibilities in connection with the administration of the Plan:

- (A) Making decisions with respect to the selection, retention or removal of the Trustee and the Committee.
- (B) Periodically reviewing the performance of the Trustee, the members of the Committee, persons to whom duties have been allocated or delegated and any advisers appointed pursuant to paragraph (f)(1) below.
- (C) Determining the form and amount of Employer Contributions.

The Board of Directors may by written resolution allocate its duties and responsibilities to one or more of its members or delegate such duties and responsibilities to any other persons; provided, however, that any such allocation or delegation shall be terminable upon such notice as the Board of Directors deems reasonable and prudent under the circumstances.

(2) Plan Committee.

(A) General.

The Company is designated as the "Plan Administrator" within the meaning of Section 3(16) of ERISA and Section 414(g) of the Code. The Company delegates to the Committee the Company's administrative duties associated with the Company's role as Plan Administrator and authorizes the Committee to designate other persons, including Employees of the Company, to carry out its duties hereunder. Any such person shall become a fiduciary under the Plan to the extent that such delegated responsibilities are fiduciary in nature. The members of the Committee shall be appointed by the Board of Directors and shall serve, without compensation, until such time as they resign, die or become incapable of exercising their duties or are removed by the Board of Directors. All members of the Committee are designated as

agents of the Plan for purposes of service of legal process. The Company shall certify to the Trustee the names and specimen signatures of the members of the Committee. Any member may resign at any time by submitting an appropriate written instrument to the Company, and while any vacancy exists, the remaining members of the Committee may perform any act which the Committee is authorized to perform. Any vacancy on the Committee shall be filled by appointment by the Board of Directors. All decisions required to be made by the Committee involving the interpretation, application and administration of the Plan shall be resolved by action of the Committee either at a meeting or in a unanimous writing without a meeting.

(B) Duties and Responsibilities.

The Committee shall have the following duties and responsibilities in connection with the administration of the Plan:

- (i) Establishing and implementing a funding policy as described in Paragraph (c) below.
- (ii) Determining the eligibility of Employees for participation in the Plan.
- (iii) Determining the eligibility of Employees for benefits provided by the Plan including such duties and responsibilities as are necessary and appropriate under the Plan's claims procedures.
- (iv) Communicating with Participants and other persons.
- (v) Interpreting and construing the terms of the Plan and Trust Agreement.
- (vi) Instructing the Trustee as to the allocation of Trust assets (including Contributions and Forfeitures) and the distribution of Plan Benefits.

The Committee may establish rules and regulations and may take any other necessary or proper action to carry out its duties and responsibilities. Notwithstanding the foregoing provisions, the Trustee shall have the primary responsibility for the withholding of income taxes from Plan distributions, for the payment of withheld income taxes on Plan distributions to the Internal Revenue Service. Compliance with record keeping and reporting requirements of ERISA shall be the primary responsibility of the Company.

The Committee shall have full discretion to construe and interpret the terms and provisions of this Plan, which interpretation or construction shall be final and binding on all parties including, but not limited to, the Company and any Participant or Beneficiary, except as otherwise provided by law. The Committee shall administer such terms and provisions in a uniform and nondiscriminatory manner and in full accordance with any and all laws applicable to the Plan. When making a determination or calculation, the Committee shall be entitled to rely upon information furnished by the Employer or anyone acting on behalf of the Employer.

(C) Allocation and Delegation of Responsibilities.

The Committee may, by written resolution, allocate its administrative duties and responsibilities to one or more of its members or it may delegate such duties and responsibilities to any other persons; provided, however, that any such allocation or delegation shall be terminable upon such notice as the Committee deems reasonable and prudent under the circumstances.

(b) Investment of Plan Assets.

The Plan assets shall be invested and controlled pursuant to the provisions of Section 6 of the Plan and the provisions of the Trust.

(c) Funding Policy.

The funding policy of the Plan is to invest trust assets primarily in Company Stock over the life of the Plan. The Trustee shall, from time to time, establish such investment methods as may be necessary to accomplish this funding policy.

(d) Claims Procedures.

(1) Procedure. Claims for benefits under the Plan shall be made in writing to the Committee. The Committee shall have full discretion to render a decision with respect to any claim. If a claim for benefits is wholly or partially denied by the Committee, then the Committee must provide notice of its denial to the claimant (a "Notice of Denial"), which shall be written in a manner calculated to be understood by the claimant and which shall set forth: (i) the specific reason or reasons for denial of the claim; (ii) a specific reference to the pertinent Plan provisions

upon which the denial is based; (iii) a description of any additional material or information necessary for the claimant to perfect the claim, together with an explanation of why the material or information is necessary; and (iv) appropriate information regarding the steps to be taken if the claimant wishes to submit his or her claim for review.

(i) Disability Claims. If a claim is related to any distribution or rights to which a Participant or other claimant may be entitled in connection with the Participant's termination of employment by reason of becoming disabled ("Disability Plan Benefits") and the claim is wholly or partially denied by the Committee, then the Committee shall provide the Notice of Denial within a reasonable period of time, not to exceed 45 days after receipt of the claim. This period within which the Committee must provide a Notice of Denial may be extended twice, for up to 30 days per extension, provided that the Committee (i) determines that an extension is needed and beyond the control of the Plan, and (ii) notifies the claimant prior to the expiration of the initial 45-day period or of the first 30-day extension period. If the Committee shall fail to notify the claimant either that his or her claim for benefits has been granted or that it has been denied within the initial 45-day period or prior to the expiration of an extension, if applicable, then the claim shall be deemed to have been denied as of the last day of the applicable period, and the claimant then may request a review of his or her claim.

(ii) Other Claims. The Committee shall notify a claimant in writing of the denial of any claim not related to Disability Plan Benefits within a reasonable period of time, not to exceed 90 days after receipt of the claim. If the Committee shall fail to notify the claimant either that his or her claim has been granted or that it has been denied within 90 days after the claim is received by the Committee, then the claim shall be deemed to have been denied.

(2) Procedure for Review of a Denied Claim.

(i) Disability Claims. If a claim is denied, a claimant may file a written request with the Committee that it conduct a full and fair review of his or her claim, and the Committee then must make a determination with respect to its review of the denied claim. A claimant must file a written request for a review of a claim for Disability Plan Benefits with the Committee within 180 days after the receipt by the claimant of a Notice of Denial of his or her claim or within 180 days after the claim is deemed to have been denied. The Committee's decision with respect to its review of the denied claim shall be rendered not later than 45 days after the receipt of the claimant's request for a review, unless special circumstances require an extension of time for processing, in which case the 45-day period may be extended to 90 days if the Committee shall notify the claimant in writing within the initial 45-day period and shall state the reason for the extension.

(ii) Other Claims. A claimant must file a written request for a review of any claim not related to Disability Plan Benefits with the Committee within 60 days after the receipt by the claimant of a Notice of Denial of his or her claim or within 60 days after the claim is deemed to have been denied. The Committee's decision with respect to its review of the denied claim shall be rendered not later than 60 days after the receipt of the claimant's request for a review, unless special circumstances require an extension of time for processing, in which case the 60-day period may be extended to 120 days if the Committee shall notify the claimant in writing within the initial 60-day period and shall state the reason for the extension.

(3) Review of Documents. In connection with a claimant's appeal of a denial of his or her benefits (including Disability Plan Benefits), the claimant may review pertinent documents and may submit issues and comments in writing. The Committee shall have full discretion to fully and fairly review the claim, and the Committee's decision upon review shall (i) include specific reasons for the decision, (ii) be written in a manner calculated to be understood by the claimant, and (iii) contain specific references to the pertinent Plan provisions upon which the decision is based.

(e) Qualified Domestic Relations Orders.

(1) In the case of any Domestic Relations Order received by the Plan, the Committee shall promptly notify the Participant and any other Alternate Payee of the receipt of such order and of the Plan's procedures for determining the qualified status of Domestic Relations Orders. Any Alternate Payee shall be permitted to designate a representative for receipt of copies of notices that are sent to the Alternate Payee with respect to such order. The amount that would be payable to the Alternate Payee shall be segregated in a segregated account as of the first day of the Plan Year during which the Domestic Relations Order is received by the Committee. Such segregated account shall continue to be treated in the same manner as the affected Accounts of the Participant, but will not be credited with any further Contributions or Forfeitures. If the order is determined to be a qualified order within the eighteen (18) month period described below, the segregated amount (including any interest or earnings thereon) shall continue to be treated as a segregated account in the name of the Alternate Payee. If the Committee determines that the order is not qualified, or if the Committee (or the appropriate court) is not able to resolve the issue within the eighteen (18) month period, the segregated amount (including any interest or earnings thereon) shall be restored to the Participant. For purposes of this Paragraph, the "eighteen (18) month period" shall mean the eighteen (18) month period beginning with the date on which the first payment would be required to be made under the Domestic Relations Order.

(2) In determining whether a Domestic Relations Order is qualified, the Committee shall follow the procedures set forth in Section 18(d) with respect to claims for Plan Benefits.

(3) A Domestic Relations Order will constitute a qualified Domestic Relations Order only if such order (i) does not require the Plan to provide any type or form of benefit (or any option) not otherwise provided under the Plan, (ii) does not require the Plan to provide increased benefits, and (iii) does not require the payment of benefits to an Alternate Payee which are required to be paid to another Alternate Payee under another order previously determined to be a qualified order. In addition, a Domestic Relations Order will constitute a qualified order only if such order clearly specifies (i) the name and last known mailing address of the Participant and of each Alternate Payee covered by the order, (ii) the amount or the percentage of a

Participant's Plan Benefit that is to be paid to each Alternate Payee, or the manner in which such amount or percentage is to be determined, (iii) the number of payments or the period to which such order applies, and (iv) each plan to which such order applies.

(4) In the case of any payment to an Alternate Payee before a Participant has separated from service, the Plan shall not be required to make any payment to an Alternate Payee prior to the date the Participant attains (or would have attained) the Earliest Retirement Age. For purposes of this Paragraph, the term "Earliest Retirement Age" means the earliest of (i) the date on which the Participant is entitled to a distribution under the Plan, or (ii) the later of the date the Participant attains age fifty (50) or the earliest date on which the Participant could begin receiving benefit if the Participant separated from service.

(f) General.

(1) The Board of Directors, the Committee or any person to whom duties and responsibilities have been allocated or delegated, may employ other persons for advice in connection with their respective responsibilities, including actuaries, plan consultants, investment advisers, attorneys and accountants.

(2) Any person may serve in more than one capacity with respect to the Plan.

(3) The Board of Directors, the Committee or any person to whom duties and responsibilities have been allocated or delegated shall be indemnified and held harmless by the Company from any expense or liability when and as incurred hereunder, unless determined by a court of competent jurisdiction to have been due to or arising from fraud, dishonesty, gross negligence, or misconduct of the Board of Directors, the Committee, or such person, as the case may be.

(4) The Board of Directors and the Committee shall have complete discretion in the interpretation of the Plan document with respect to the duties and responsibilities allocated to them under the terms of the Plan, with all power and discretion necessary to carry out any of their duties described herein.

The decisions of the Board of Directors and the Committee in matters within their jurisdiction shall be final, binding and conclusive upon each Employer, each Employee, Beneficiary and every other interested or concerned person or party.

Section 19. AMENDMENT AND TERMINATION.

(a) Amendment.

To provide for contingencies which may require or make advisable the clarification, modification or amendment of this Agreement, the Company reserves the right to amend the Plan at any time and from time to time, in whole or in part, including without limitation, retroactive amendments necessary or advisable to qualify the Plan and Trust under the provisions of Sections 401(a) and 4975(e)(7) of the Code or any successor or similar statute hereafter enacted. Any such amendment to the Plan or Trust must be adopted by resolution of the Company's Board of Directors. However, no such amendment shall (1) cause any part of the assets of the Plan and Trust to revert to or be recoverable by the Company or be used for or diverted to purposes other than the exclusive benefit of Participants, former Participants and Beneficiaries, (2) deprive any Participant, former Participant or Beneficiary of any Plan Benefit already vested, except to the extent that such amendment may be necessary to permit the Plan or the Trust to qualify or continue to qualify as tax-exempt, (3) terminate the protections and rights described in Section 16, (4) alter, change or modify the duties, powers or liabilities of the Trustee hereunder without its written consent, or (5) with respect to any benefit previously accrued, eliminate or reduce any early retirement benefit or retirement type subsidy, or eliminate any optional form of benefit, except to the extent permitted by Section 411(d)(6) of the Code.

(b) Changes in the Code.

Any other provision of this Plan to the contrary notwithstanding, if any amendment to the Code requires that a conforming Plan amendment must be adopted effective as of a stated effective date in order for this Plan to continue to be a qualified plan, this Plan shall be operated in accordance with the requirement of such amendment to that law until the date when a conforming Plan amendment is adopted, or the date when a clear and unambiguous nonconforming Plan amendment is adopted, whichever occurs first.

(c) Termination, Partial Termination or Complete Discontinuance of Contributions.

Although the Company has established the Plan with the bona fide intention and expectation that it will be able to make contributions indefinitely, nevertheless, the Company shall not be under any obligation or liability to continue its contributions or to maintain the Plan for any given length of time. The Company may in its sole discretion discontinue such contributions or terminate the Plan in whole or in part in accordance with its provisions at any time without any liability for such discontinuance or termination. In the event of a termination (as defined in Treasury Regulation Section 1.401-6(b)(1)) or complete discontinuance of contribution, then the Accounts of all Participants affected by the termination or discontinuance of contributions will become nonforfeitable. In the event of a partial termination, the Accounts of all Participants affected by the partial termination will become nonforfeitable. After termination of the Plan, the Trust will be maintained until the Plan Benefits of all Participants have been distributed. Plan Benefits may be distributed following termination of the Plan or distributions may be deferred and distributed as provided in Section 14, as the Company shall determine. If Plan Benefits will be distributed after the Plan is terminated, the distribution may be delayed until IRS approval is received. In the event that Company Stock is sold in connection with the termination of the Plan or the amendment of the Plan to become a qualified employee plan that is not a stock bonus plan, all Plan Benefits will be distributed in cash.

(d) Determination by Internal Revenue Service.

Notwithstanding any other provision of the Plan, if the Internal Revenue Service shall fail or refuse to issue a favorable written determination or ruling with respect to the continued qualification of the Plan and exemption of the Trust from tax under Section 501(a) of the Code, all Employer Contributions under Section 401(a), together with any income received or accrued thereon less any benefits or expenses paid shall, upon the written direction of the Company, be deemed held by the Trustee under the Employee Stock Ownership Plan as it existed prior to the adoption of this Plan and this Plan and the Trust shall terminate.

(e) Return of Employer's Contribution.

Notwithstanding any other provision of the Plan, if a Contribution is conditioned on its deductibility and the deduction is disallowed or if a Contribution is made due to a mistake of fact, such Employer Contribution may be returned to the Employer if such Contribution is returned within one (1) year thereafter and if the amount returned does not exceed the excess of the actual Contribution over the amount which would have been contributed had there been no error in determining the deduction or mistake of fact. Earnings of the Plan attributable to the excess Contribution may not be returned to the Employer, but any losses attributable thereto must reduce the amount so returned.

Section 20. MISCELLANEOUS.

(a) Participation by Affiliated Company.

(1) Any Affiliated Company presently existing or hereafter acquired may, with the consent of the Company, adopt the Plan and Trust and thereby enable its employees to participate herein.

(2) In the event any Participant is transferred to an Affiliated Company which is a participating Employer, such Participant shall continue to participate hereunder in the allocation of Employer Contributions and the Participant's Accounts shall continue to vest in accordance with Section 13. Any Participant who is transferred to an Affiliated Company which is not a participating Employer shall be treated as a suspended Participant in accordance with Section 4(e).

(b) Limitation of Rights; Employment Relationship.

All Plan Benefits will be paid only from the Trust assets and neither the Company nor any Employer nor the Committee nor the Trustee shall have any duty or liability to furnish the Trust with any funds, securities or other assets except as expressly provided in the Plan. Nothing herein shall be construed to obligate any Employer to continue to employ any Employee.

(c) Merger; Transfer of Assets.

In no event shall this Plan be merged or consolidated with any other employee benefit plan, nor shall there be any transfer of assets or liabilities from this Plan to any other such plan, unless immediately after such merger, consolidation or transfer, each Participant's benefits, determined as if the plan had terminated, are at least equal to or greater than the benefits which the Participant would have been entitled to had this Plan been terminated immediately before such merger, consolidation or transfer.

(d) Prohibition Against Assignment.

The Plan Benefits may not be assigned or alienated; provided, however, that a qualified Domestic Relations Order shall not be construed as an assignment or alienation. Except for indebtedness to the Trust and orders to make payments or assign benefits to a spouse, former spouse, child or other dependent under a qualified Domestic Relations Order, neither the

Company nor the Trustee shall recognize any transfer, mortgage, pledge, hypothecation, order or assignment by any Participants or Beneficiaries of all or part of their interest hereunder, and such interest shall not be subject in any manner to transfer by operation of law, and shall be exempt from the claims of creditors or other claimants from all orders, decrees, levies, garnishment and/or executions and other legal or equitable process or proceedings against such Participants or Beneficiaries to the fullest extent which may be permitted by law. Notwithstanding anything in Subsection 20(d) to the contrary, in accordance with the provisions of Code Section 401(a)(13) as amended by the Taxpayer Relief Act of 1997, Plan Benefits may be reduced to satisfy a Participant's liability to the Plan due to the Participant's conviction of a crime involving the Plan, a judgement, consent order, or decree in an action for violation of fiduciary standards; or a settlement involving the Department of Labor or the Pension Benefits Guarantee Corporation.

(e) Applicable Law; Severability.

The Plan hereby created shall be construed, administered and governed in all respects in accordance with ERISA and to the extent not superseded by federal law, in accordance with the laws of the State of California; provided, however, that if any provision is susceptible of more than one interpretation, such interpretation shall be given thereto as is consistent with the Plan being a qualified employee stock ownership plan within the meaning of the Code. If any provision of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

Section 21. TOP-HEAVY RULES.

(a) Purpose and Effect.

The purpose of this Section 21 is to comply with the requirements of Section 416 of the Code. The provisions of this Section 21 are effective for each Plan Year beginning on or after the Effective Date in which the Plan is a “*Top-Heavy Plan*” within the meaning of Section 416(g) of the Code.

(b) Top-Heavy Plan.

In general, the Plan will be a Top-Heavy Plan for any Plan Year if, as of the “*Determination Date*” (that is, the last day of the preceding Plan Year, or in the case of the first Plan Year, the last day of such Plan Year), the sum of the amounts in paragraphs (i), (ii) and (iii) below for Key Employees exceeds sixty percent of the sum of such amounts for all Employees who are covered by this Plan or by a defined contribution plan or defined benefit plan that is aggregated with this Plan in accordance with Section 21(d) herein:

- (i) The aggregate Account balances of Participants under this Plan.
- (ii) The aggregate Account balances of Participants under any other defined contribution plan included under Section 21(d) herein.
- (iii) The present value of the cumulative accrued benefits of Participants calculated under any defined benefit plan included in Section 21(d) herein.

In making the foregoing determination: (i) a Participant’s Account balances or cumulative accrued benefits shall be increased by the aggregate distributions, if any, made with respect to the Participant during the 1-year period (except with respect to in-service distributions, for which the 5-year period shall continue to apply), ending on the Determination Date, including distributions under a terminated plan that, if it had not been terminated, would have been required to be included in the aggregation group, (ii) the Account balances or cumulative accrued benefits of a Participant who was previously a Key Employee, but who is no longer a Key Employee, shall be disregarded, (iii) the Account balances or cumulative accrued benefits of a Beneficiary of a Participant shall be considered Accounts or accrued benefits of the Participant, (iv) the Account balances or cumulative accrued benefits of a Participant who has not performed services for an Employer or an Affiliated Company at any time during the 1-year period ending

on the Determination Date shall be disregarded and (v) any rollover contribution (or similar transfer) from a plan maintained by a corporation other than an Employer under this Plan initiated by a Participant shall not be taken into account as part of the Participant's aggregate Account balances under this Plan.

(c) Key Employee.

In general, a "Key Employee" is an Employee (or a former or deceased Employee) who, at any time during the Plan Year, is or was:

- (i) an officer of the Employer having annual compensation greater than \$145,000, as adjusted from time to time by the Internal Revenue Service; provided that, for purposes of this paragraph, no more than fifty Employees of the Employer (or, if lesser, the greater of three Employees or ten percent of the Employees) shall be treated as officers;
- (ii) a five percent or greater owner of an Employer; or
- (iii) a one percent or greater owner of an Employer having annual compensation from the Employer of more than \$150,000 (as adjusted by the Internal Revenue Service).

For purposes of this Section 21, the term "compensation" means Total Compensation as defined in Section 2 of the Plan, except such compensation for any Plan Year shall not exceed \$230,000, as adjusted for cost-of-living increases in accordance with Section 401(a)(17)(B) of the Code.

(d) Aggregated Plans.

Each other defined contribution plan and defined benefit plan maintained by an Employer that covers a Key Employee as a Participant or that is maintained by an Employer in order for a plan covering a Key Employee to satisfy Section 401(a)(4) or 410 of the Code shall be aggregated with this Plan in determining whether this Plan is top-heavy. In addition, any other defined contribution or defined benefit plan of an Employer may be included if all such plans that are included, when aggregated, will not discriminate in favor of officers, shareholders or Highly Compensated Employees and will satisfy all of the applicable requirements of Sections 401(a)(4) and 410 of the Code.

(e) Minimum Vesting.

For any Plan Year in which the Plan is a Top-Heavy Plan, the vested percentage of a Participant's Accounts, with respect to any Participant who completes at least one Hour of Service after the Plan becomes a Top-Heavy Plan, shall not be less than the percentage determined under the following table:

	<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 2		0
2		20
3		40
4		60
5		80
6 or more		100

If the foregoing provisions of this Section 21(e) become effective, and the Plan subsequently ceases to be a Top-Heavy Plan, the Participant's vested Accounts shall not be reduced, and each Participant who has then completed three or more Years of Service may elect to continue to have the vested percentage of such Participant's Accounts determined under the provisions of this Section 21(e).

(f) Minimum Contribution.

Subject to the following provisions of this Section and Section 21(g) below, for any Plan Year in which the Plan is a Top-Heavy Plan, the Contribution credited to each Participant who is not a Key Employee (regardless of whether such Employee has completed 1,000 Hours of Service and regardless of such Employee's level of compensation) shall not be less than 3 percent of such Participant's compensation from the Employers for that year. In no event, however, shall the total Contribution credited in any year to a Participant who is not a Key Employee (expressed as a percentage of such Participant's compensation from the Employers) be required to exceed the maximum total Contribution credited in that year to a Key Employee (expressed as a percentage of such Key Employee's compensation from the Employers). Contributions made by an Employer under the Plan pursuant to Participants' income deferral authorizations shall not be deemed Contributions for purposes of this Section. Employer matching contributions (as defined in Code Section 401(m)(4)(A)) shall be taken into account for purposes of this paragraph. The amount of minimum Contribution otherwise required to be allocated to any Participant for any Plan Year under this Section shall be reduced by the amount of Contributions allocated to such Participant for a Plan Year ending with or within that Plan Year under any other tax-qualified defined contribution plan maintained by an Employer.

(g) Coordination of Benefits.

For any Plan Year in which the Plan is top-heavy, in the case of a Participant who is a non-Key Employee and who is a Participant in a top-heavy tax-qualified defined benefit plan that is maintained by an Employer and that is subject to Section 416 of the Code, Section 21(f) above shall not apply, and the minimum benefit to be provided to each such Participant in accordance with this Section 21 and Section 416(c) of the Code shall be the minimum annual retirement benefit to which such Participant is entitled under such defined benefit plan in accordance with such Section 416(c), reduced by the amount of annual retirement benefit purchasable with such Participant's Accounts (or portions thereof) attributable to Contributions under this Plan and any other tax-qualified defined contribution plan maintained by an Employer.

Section 22. EXECUTION.

To record the adoption of this Plan, the Company has caused its appropriate officer to affix its corporate name and seal hereto this _____ day of _____, 2008.

McGRATH RENTCORP

(CORPORATE SEAL)

By: _____
Dennis C. Kakures, President

**MCGRATH RENTCORP
EMPLOYEE STOCK OWNERSHIP TRUST
(As Amended and Restated Effective as of January 1, 2008)**

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MCGRATH RENTCORP
EMPLOYEE STOCK OWNERSHIP TRUST

THIS TRUST AGREEMENT, made as of the date hereof, by and between McGrath RentCorp, a California corporation (the "Company"), and North Star Trust Company, not in its individual or corporate capacity, but solely in its capacity as trustee, and its successors and assigns in the trust hereby evidenced (the "Trustee").

WITNESSETH THAT:

WHEREAS, McGrath RentCorp adopted the McGrath RentCorp Employee Stock Ownership Plan, effective January 1, 1985 ("Plan");

WHEREAS, McGrath RentCorp established a trust in a separate document to implement and form a part of the Plan to be exempt from tax under Section 501(a) of the Code and to be known as the McGrath RentCorp Employee Stock Ownership Trust Agreement ("Trust"), effective January 1, 1985;

WHEREAS, the Plan has been subsequently amended and restated in its entirety twice, effective as of January 1, 1989, effective as of August 28, 2003.

WHEREAS, the Trust was by and between McGrath RentCorp and Union Bank, not in its corporate capacity, but solely in its capacity as trustee;

WHEREAS, Union Bank was removed as trustee of the Trust effective August 31, 2002 and Delight Saxton and Thomas J. Sauer were appointed as successor trustee of the Trust;

WHEREAS, the Trust was amended and restated in its entirety effective as of September 12, 2003 and Delight Saxton and Thomas J. Sauer were removed as successor trustees of the Trust and North Star Trust Company was appointed as successor trustee of the Trust.

WHEREAS, the Company now desires to amend and restate the Trust effective as of January 1, 2008 (the "Trust");

WHEREAS, the Trust henceforth will be by and between McGrath RentCorp and the North Star Trust Company, not in its corporate capacity, but solely in its capacity as Trustee;

WHEREAS, the Trustee accepts the Trust which is and becomes a part of the Plan and agrees to perform the obligations set forth in this Trust;

WHEREAS, the Trust shall be interpreted, whenever possible, to comply with the terms of the Code, the ERISA, and all applicable Regulations and rulings; and

WHEREAS, capitalized terms used but not defined herein shall have the respective meanings given to such terms in the Plan.

NOW, THEREFORE, pursuant to the authority delegated to the undersigned officers of the Company by resolution of its Board of Directors (the "Board");

IT IS AGREED, by and between the parties hereto, that the trust provisions contained herein shall constitute the agreement between the Company and the Trustee in connection with the Plan and the Trust; and

IT IS FURTHER AGREED, that the Trustee hereby accepts its re-appointment as such under this Trust on the date hereof, effective as of January 1, 2008.

IT IS FURTHER AGREED, by and between the parties hereto as follows:

**ARTICLE I
NAME AND ACCEPTANCE**

Sec. 1.01. NAME. This Trust Agreement and Trust hereby shall be known as the "McGrath RentCorp Employee Stock Ownership Trust."

Sec. 1.02. ACCEPTANCE. The Trustee accepts the Trust established and continued herein which is and becomes part of the Plan and agrees to perform the obligations imposed under this Trust Agreement.

Sec. 1.03. DEFINITIONS.

(a) "Current Obligations" means obligations of the Trust Fund arising from expenses incurred by the Trust Fund and an extension of credit to the Trust Fund and payable in cash within one (1) year from the date a contribution to the Plan is due.

(b) "Dividend" means a distribution made by the Employer to its shareholders in the form of a dividend (as defined in Code Section 316) with respect to its Employer Securities.

(c) "Fiduciary" means any person who: (1) exercises any discretionary authority or discretionary control and management of the Plan or exercises any authority or control and management or disposition of Plan assets; (2) renders investment advice for a fee or other compensation, direct or indirect, with respect to any monies or other property of the Trust Fund or has any authority or responsibility to do so; or (3) has any discretionary authority or discretionary responsibility in the administration of the Plan and the Trust Fund, including, but not limited to, the Trustee, the Committee and any person designated under ERISA Section 405(c)(1)(B).

(d) "General Obligations" means obligations of the Trust Fund not arising from extensions of credit to the Trust Fund, but which are commitments which arise from authorized activities of the Trust Fund.

(e) "Income of the Trust Fund" means the net gain or loss of the Other Investments Accounts of the Trust Fund, as reflected by interest payments, dividends, realized and unrealized gains and losses on securities, other than Employer Securities, and on other investment transactions, and reduced by expenses paid from the Trust Fund. The expenses of the Trust Fund do not include interest paid on any Securities Acquisition Loan.

(f) "Investment Manager" means any person, firm, or corporation who is a registered investment advisor under the Investment Advisors Act of 1940, a bank or an insurance company, and who has the power to manage, acquire, or dispose of Plan assets, and who acknowledges in writing his fiduciary responsibility to the Plan.

(g) "Plan" shall have the meaning as set forth in the preambles.

(g) "Plan Administrator" is the Company, unless the Company designates another person or persons to hold the position of Plan Administrator. In addition to its other duties, the Plan Administrator has full responsibility for compliance with the reporting and disclosure rules under ERISA, other than reporting of distributions on IRS Forms 1099 and similar forms.

(h) "Regulations" and "Treasury Regulations" means the final and temporary regulations issued by the Internal Revenue Service which interpret the provisions of the Internal Revenue Code of 1986, as amended. "Regulations" and "Labor Regulations" also means the final and temporary regulations issued by the Department of Labor which interpret the provisions of the Employee Retirement Income Security Act of 1974, as amended.

(i) "Separation from Service" or "Separates from Service" or "Separated from Service" means the Employee no longer has an employment relationship with the Employer maintaining the Plan.

(j) "Trust" shall have the meaning as set forth in the preambles.

ARTICLE II MANAGEMENT AND CONTROL OF TRUST FUND

Sec. 2.01. TRUST FUND. The "Trust Fund" as of any date means all property of every kind held or acquired by the Trustee pursuant to this Trust. The Trustee may manage, administer and invest all contributions made to the Trust by the Employer under the Plan as one Trust Fund. If, for any reason, it becomes necessary to determine the portion of the Trust Fund allocable to Employees and former Employees of any Employer as of any date, the Committee shall specify such date as a Valuation Date, and after all adjustments required under the Plan as of that Valuation Date have been made, the portion of the Trust Fund attributable to such Employees and former Employees shall be determined and shall consist of an amount equal to the aggregate of the Participant Account balances of Employees and former Employees of that Employer, including an amount equal to any allocable contributions made by that Employer since the close of the immediately preceding Plan Year minus any losses on such contributions.

Sec. 2.02. PLAN ADMINISTRATION. The Plan shall be administered by the Company, which may delegate all or a portion of its responsibilities in such administration to the Committee or others. With respect to Plan administration, except as provided in the Plan and Section 2.04 herein, the Trustee shall have no authority to act unless directed in writing by the Company or its delegate. The Company and each of its delegates may authorize one or more individuals to sign all communications between the Company or its delegate, as applicable, and Trustee. The Company shall at all times keep the Trustee advised of the names of the individuals authorized to sign on behalf of the Company, and provide specimen signatures thereof. With the Trustee's prior written consent, the Company may authorize the Trustee to act, without specific directions or other directions or instructions from the Company, on any matter or class of matters with respect to which directions or instructions from the Company or its delegate are called for hereunder. The Trustee shall be fully protected in relying on any communication sent by any authorized person and shall not be required to verify the accuracy or validity of any signature. If the Trustee requests any directions hereunder and does not receive them, the Trustee shall act or refrain from acting, as it may determine, with no liability for such action or inaction. Notwithstanding the provisions herein, the Trustee is the sole discretionary fiduciary with respect to borrowing money for the purpose of purchasing employer securities and for the purchase or sale of employer securities and the holding of such employer securities.

Sec. 2.03. EXERCISE OF TRUSTEE'S DUTIES. The Trustee shall discharge its duties hereunder solely in the interest of Plan Participants and other persons entitled to benefits under the Plan, and:

(a) for the exclusive purpose of:

- (i) providing benefits to Participants and other persons entitled to benefits under the Plan; and
- (ii) defraying reasonable expenses of administering the Plan;

(b) with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims; and

(c) in accordance with the documents and instruments governing the Trust unless, in the good faith judgment of the Trustee, the documents and instruments are not consistent with the provisions of the Code and the ERISA.

Sec. 2.04. **GENERAL POWERS.** The Trustee has full discretion and authority with regard to the investment and reinvestment of the Trust Fund, except with respect to a Trust asset under the control or direction of a properly appointed Investment Manager or with respect to a Trust asset properly subject to Employer or Committee direction, as provided in Section 17(a) of the Plan. Subject to the provisions of Sections 2.02, 2.03, 2.09 and Article III herein, with respect to the Trust Fund, the Trustee shall have, but shall not be limited to the following powers, rights and duties in addition to those provided elsewhere in this Trust, the Plan or by law:

- (a) To invest the Trust Fund primarily in Employer Securities and to invest or reinvest the Trust Fund in any common or preferred stocks, open-end or closed-end mutual funds, put and call options traded on a national exchange, United States retirement plan bonds, corporate bonds, debentures, convertible debentures, commercial paper, U.S. Treasury bills, U.S. Treasury notes and other direct or indirect obligations of the United States Government or its agencies, improved or unimproved real estate situated in the United States, limited partnerships, limited liability companies, insurance contracts of any type, mortgages, notes or other property of any kind, real or personal, and to buy or sell options on common stock on a nationally recognized exchange with or without holding the underlying common stock, to buy and sell commodities, commodity options and contracts for the future delivery of commodities, and to make any other investments the Trustee deems appropriate, as a prudent person would do under like circumstances with due regard for the purposes of the Plan;
- (b) To retain in cash (pending investment, reinvestment or the distribution of dividends) such reasonable amount as may be required to satisfy liquidity needs of the Trust and for the proper administration of the Trust and to invest such cash as provided in Section 3.01 herein, provided, however, the Trustee may retain reasonable amounts of cash, in its discretion, without any liability for interest;
- (c) To invest at a reasonable rate of interest or in a common trust fund, as described in Code Section 584, or in a collective investment fund, the provisions of which govern the investment of such assets and which the Plan incorporates by this reference and which conforms to the rules of the Comptroller of the Currency;
- (d) To lease for oil, gas and other mineral purposes and to create mineral severances by grant or reservation; to pool or unitize interests in oil, gas and other minerals; and to enter into operating agreements and to execute division and transfer orders;
- (e) To hold any securities or other property in the name of the Trustee or its nominee, with depositories or agent depositories or in another form as it may deem best, with or without disclosing the trust relationship;
- (f) To provide information available to the Trustee to enable the Company to file all tax returns required for the Trust and Plan required of the Trustee;
- (g) To receive and to hold all contributions paid to it under the Plan; provided, however, that the Trustee shall have no duty to collect or require any contributions to be made to it, to determine that the contributions received by it comply with the provisions of the Plan or with any resolution of the Board providing therefore;
- (h) To credit and make distributions from the Trust Fund to such persons or trusts, in such manner and at such times as directed by the Company or its delegate without inquiring as to whether a payee or distributee is entitled to the payment, or as to whether a payment is proper, and without liability for a payment made in good faith without actual notice or knowledge of the changed condition or status of the payee or distributee. If any payment of benefits to be made from the Trust Fund by the Trustee is not claimed,

the Trustee shall notify the Company or its delegate of that fact promptly. The Company or its delegate will make a diligent effort to ascertain the whereabouts of the payee or distributee of benefits returned unclaimed. The Trustee shall dispose of such payments as the Company or its delegate shall direct pursuant to the Plan. The Trustee shall have no obligation to search for or ascertain the whereabouts of any payee or distributee of benefits from the Trust Fund;

(i) To vote Employer Securities, as provided herein and subject to the requirements of the Code, and any other stocks, bonds or other securities held in the Trust, or otherwise consent to or request any action on the part of the issuer in person, by proxy or power of attorney as provided herein:

(1) Voting of Employer Securities by Participants (or Beneficiaries), notwithstanding any provision contained in the Plan to the contrary;

(2) With respect to Shares of Employer Securities held in the Allocated Employer Securities Account, which are not part of a registration-type class of securities (as defined in Code Section 409(e)(4)), a Participant has the right to direct the Trustee regarding the voting of such Employer Securities allocated to his Employer Securities Account with respect to any corporate matter which involves the approval or disapproval of any corporate merger or consolidation, recapitalization, reclassification, liquidation, dissolution, sale of substantially all assets of a trade or business, or such similar transaction as the Treasury may prescribe in regulations. As to any Employer Securities allocated to the participant's Employer Securities Account which are part of a registration-type class of securities, the voting rights provided in this Subsection 2.04(i) extend to all corporate matters requiring a vote of stockholders. The Trustee does not have the right to vote any Employer Securities which a Participant (or Beneficiary) fails to vote as authorized by this Subsection 2.04(i);

(3) Each Participant (or Beneficiary) who timely provides instructions to the Trustee shall be entitled to direct the Trustee how to vote Employer Securities allocated to such Participants (or Beneficiaries) Accounts in accordance with this Subsection. In order to implement these voting directions, the Company or the Trustee shall provide each Participant (or Beneficiary) with proxy solicitation materials or other notices or information statements which are distributed to Company shareholders, together with a form requesting confidential instructions as to the manner in which Employer Securities allocated to the Participants (or Beneficiaries) Employer Securities Accounts are to be voted. Each Participant (or Beneficiary) shall, as a named fiduciary described in Section 403(a)(1) of ERISA, direct the Trustee with respect to the vote of such Employer Securities which are allocated to the Employer Securities Account of the Participant (or Beneficiary). Reasonable means shall be employed by the Trustee to provide confidentiality with respect to the voting by such Participant (or Beneficiary) and the Trustee shall hold such directions in confidence and shall not divulge or release such directions to any person, including the Company or any director, officer, employee or agent of the Company, it being the intent of this provision of this

Subsection to ensure that the Company (and its directors, officers, employees and agents) cannot determine the direction given by any Participant (or Beneficiary). Such instructions shall be in such form and shall be filed in such manner and at such time as the Trustee may prescribe;

(4) With respect to shares of Employer Securities held in the Unallocated Employer Securities Account which are part of a registration-type class of securities, the Trustee shall properly vote such Employer Securities which are held in the Unallocated Employer Securities Account of each Participant (or Beneficiary) for or against any proposal. If all Employer Securities are held in the Unallocated Employer Securities Accounts of each Participant (or Beneficiary) on the record date when a matter is submitted to a vote of the Company's shareholders, the Trustee shall properly vote such Employer Securities for or against any proposal;

(5) Notwithstanding any provision contained in this Subsection 2.04(i), the Trustee shall not vote as directed by and shall not effectuate the Participant (or Beneficiary) directions in a manner which are or would result in a violation of ERISA or would not be in the best interest of the Participant (or Beneficiary);

(6) If any provision contained in or action required by this Subsection 2.04(i) violates any provision under ERISA, the Trustee shall comply with the provisions under ERISA;

(j) To contract or otherwise enter into transactions between itself, as Trustee, and the Company or any Employer, or any Company shareholder or other person, for the purpose of acquiring or selling Employer Securities and, subject to the provisions of Section 2.03 herein and the Plan, to retain such Employer Securities;

(k) To compromise, contest, arbitrate, settle or abandon claims and demands by or against the Trust and Trust Fund;

(l) To begin, maintain or defend any litigation necessary in connection with the investment, reinvestment and administration of the Trust, and, to the extent not paid from the Trust Fund and subject to Section 8.01 herein, the Employers shall indemnify the Trustee against all expenses and liabilities reasonably sustained or anticipated by it by reason thereof (including reasonable attorneys' fees);

(m) To retain any funds or property subject to any dispute without liability for the payment of interest, or to decline to make payment or delivery thereof until final adjudication is made by a court of competent jurisdiction;

(n) To report to the Company as of the last day of each Plan Year, as of any Valuation Date (or as soon thereafter as practicable), or at such other times as may be required under the Plan, the then "Net Worth" of the Trust Fund, which is, the fair market value of all property held in the Trust Fund, reduced by any liabilities other than liabilities to Participants (and their Beneficiaries) in the Plan, as determined by the Trustee;

(o) To furnish to the Company and the Committee an annual statement of account or accounts for such periods as may be required under the Plan, showing the condition of the Trust Fund and the Net Worth of the Trust Fund at the end of the Plan Year, all investments, receipts, disbursements and other transactions made by the Trustee during the Plan Year, covered by the statement, and such other information as the Trustee may possess which the Company requires in order to comply with Section 103 of the ERISA. The Trustee shall keep accurate accounts of all investments and earnings thereon. Except with respect to Participant voting records and the valuation report (if any is obtained) of the Independent Appraiser (defined at Article IV), all accounts, books and records related to such investments shall be open to inspection by any person designated by the Company or the Committee at reasonable times and may be audited from time to time by any person or persons as the Company, Employer or Committee may specify in writing. All accounts of the Trustee shall be kept on an accrual basis. If, during the term of this Trust, the Department of Labor issues Regulations under the ERISA regarding the valuation of Employer Securities or other assets for purposes of the reports required by the ERISA, the Trustee shall use such valuation methods for purposes of the accounts described by this subparagraph. The Company may approve such accounting by written notice of approval delivered to the Trustee or by failure to express objection to such accounting in writing delivered to the Trustee within thirty (30) days from the date upon which the accounting was delivered to the Company. Upon the receipt of a written approval of the accounting, or upon the passage of the period of time within which objection may be filed without written objections having been delivered to the Trustee, such accounting shall be deemed to be approved, and the Trustee shall be released and discharged as to all items, matters and things set forth in such account, as fully as if such accounting had been settled and allowed by decree of a court of competent jurisdiction in an action or proceeding in which the Trustee, the Company and all persons having or claiming to have any interest in the Trust Fund or under the Plan were parties;

(p) To pay any income or other tax, charge or assessment attributable to any benefit which it shall or may be required to pay or withhold taxes out of such benefit; and to require before making any payment such release or other document from any taxing authority and such indemnity from the intended payee or distributee as the Trustee shall deem necessary for its protection;

(q) To employ and to reasonably rely upon information and advice furnished by agents, attorneys, independent appraisers, independent financial advisors, accountants or other persons of its choice for such purposes as the Trustee considers desirable;

(r) To assume, until advised to the contrary, that the Trust evidenced by this Trust Agreement is qualified under Section 401(a) of the Code and is entitled to tax exemption under Section 501(a) of the Code;

(s) To have the authority, in addition to Section 2.04(a), to invest and reinvest the assets of the Trust Fund, in personal property of any kind, including, but not limited to, Employer Securities, bonds, notes, debentures, mortgages, equipment trust certificates, investment trust certificates, life insurance, guaranteed investment contracts, preferred or common stock, common trust funds, mutual funds, collective trust funds, and registered investment companies; provided, however, that all investments in Employer Securities shall be undertaken pursuant to the provisions of Section 3.01 herein.

(t) To exercise, subject to the provisions of Article III herein, any options, subscription rights and other privileges with respect to the Trust Fund, to manage, sell, contract to sell, grant options to purchase, convey, exchange, transfer, abandon, improve, repair, insure, lease for any term even though commencing in the future or extending beyond the term of the Trust, and otherwise deal with all property, real or personal, in such manner, for such considerations and on such terms and conditions as the Trustee decides;

(u) To register ownership of any securities or other property held by it in its own name or in the name of a nominee, with or without the addition of words indicating that such securities are held in a fiduciary capacity, and may hold any securities in bearer form, but the books and records of the Trustee shall at all times reflect that all such investments are part of the Trust;

(v) To borrow such sum or sums of money, to assume indebtedness, to extend mortgages, from time to time as the Trustee considers necessary or desirable and in the best interest of the Plan, Trust Fund and Plan Participants, and for that purpose to mortgage or encumber or pledge any part of the Trust Fund (subject to the provisions of Code Section 4975(c) and the Regulations issued thereunder);

(w) To perform any and all other acts which are necessary or appropriate for the proper management, investment and distribution of the Trust Fund;

(x) To construe and interpret the Trust. All written decisions, determinations, directions, interpretations, and applications (collectively referred to as "determination") of the Trust by the Trustee shall be final and binding upon all persons, including (but not limited to) the Trustee, the Company, and all Participants and Beneficiaries unless such determination is in violation of the ERISA or any federal or state laws;

(y) To purchase Employer Securities as an investment of the Trust, provided the Trustee does not pay in excess of adequate consideration as defined in the ERISA;

(z) To borrow money, to assume indebtedness, extend mortgages and encumber by mortgage or pledge; provided, however, if any loan transaction is with a disqualified person or a disqualified person guarantees a loan to the Plan or Trust, the following terms and conditions apply to such loan:

(1) The Trustee will use the proceeds of a loan within a reasonable time after receipt only for any of the following purposes: (i) to acquire Employer Securities, (ii) to repay such loan, or (iii) to repay a prior Securities Acquisition Loan. Except as permitted by Regulation or applicable law, no financed Employer Securities may be subject to a put, call or other option, or buy-sell or similar arrangement while held by and when distributed from the Trust, whether or not the Plan is then an employee stock ownership plan;

(2) The interest rate of the Securities Acquisition Loan may not be more than a reasonable rate of interest;

(3) Any collateral the Trustee pledges to the creditor must consist only of the assets purchased by the borrowed funds and those assets the Trust used as collateral on any prior Securities Acquisition Loan repaid with the proceeds of the current Securities Acquisition Loan;

(4) The creditor may have no recourse against the Trust under the Securities Acquisition Loan except with respect to such collateral given for the loan that the Company makes to the Trust to meet its obligations under the Securities Acquisition Loan, and earnings attributable to such collateral and the investment of such contributions. The Company must account for such contributions and earnings on the books of account of the Plan until the Trust repays the Securities Acquisition Loan;

(5) In the event of default upon the Securities Acquisition Loan, the value of Trust assets transferred in satisfaction of the Securities Acquisition Loan must not exceed the amount of default, and if the lender is a disqualified person, the loan must provide for transfer of Trust assets upon default only upon and to the extent of the failure of the Trust to meet the payment schedule of the Securities Acquisition Loan;

(6) The Trustee must maintain all assets acquired with the proceeds of a Securities Acquisition Loan in a Suspense Account. In withdrawing assets from the Suspense Account, the Trustee will apply the provisions of Treasury Regulation Section 54.4975-7(b)(8) as if all securities in the Suspense Account were encumbered. Upon the payment of any portion of the Securities Acquisition Loan, the Trustee will effect the release of assets in the Suspense Account from encumbrances pursuant to the applicable provisions in the Plan;

(aa) To invest the Trust Fund in accordance with Participants' diversification elections pursuant to Section 17(a) of the Plan;

(bb) Notwithstanding the foregoing, if the Plan ceases to be an employee stock ownership plan after the Trustee repays the Securities Acquisition Loan, the Employer Securities acquired by the Trust with the proceeds of an Securities Acquisition Loan shall continue to be subject to the provisions of Treasury Regulation Section 54.4975-7(b)(4), (10), (11) and (12) relating to put, call or other options and to buy-sell or similar arrangements, except to the extent these Regulations are inconsistent with Code Section 409(h).

Sec. 2.05. RESPONSIBILITY OF TRUSTEE. The Trustee shall not be responsible in any way for the adequacy of the Trust Fund to meet and discharge any or all liabilities under the Plan or for the proper application of distributions made or other actions taken upon the direction of the Committee. The powers, duties and responsibilities of the Trustee shall be limited to those set forth in this Trust Agreement, or as later agreed upon by the Trustee, Company, and Committee in writing, and nothing contained in the Plan, either expressly or by implication, shall be deemed to impose any additional powers, duties or responsibilities on the Trustee.

Sec. 2.06. COMPENSATION AND EXPENSES. The Trustee shall be entitled to reasonable compensation for its services, as agreed to between the Company and the Trustee in the Trustee Engagement Agreement, dated July 1, 2003 ("Engagement Agreement") which is incorporated herein by reference, as it may be amended from time to time. While the payment of all amounts owed to the Trustee, other than pursuant to the indemnification provisions of the Engagement Agreement, is the legal obligation of the Trust, the Company may pay any and all amounts owed to the Trustee pursuant to this Trustee Agreement. To the extent the Trust is unable to pay all amounts owed to the Trustee for any reason, any unpaid amounts shall become the legal obligation of the Company and shall be paid as soon as possible after receipt of written notice from the Trustee by the Company. The Trustee is authorized to pay from the Trust Fund all expenses reasonably incurred by the Trustee, to the extent such fees and expenses are for the ordinary and necessary administration and operation of the Trust, including its compensation, compensation to any agents employed by the Trustee and any reasonable accounting and reasonable legal expenses. If the Trustee is to pay such expenses from the Trust Fund but there are not sufficient amounts in the Trust Fund to pay such expenses, the Trustee has the right (i) to offset the amounts due to it against the Trust Fund and the Trustee shall be authorized to sell Trust assets of the Trust Fund; or (ii) to put Employer Securities to the Company pursuant to Section 3.05 hereof, to the extent necessary to obtain sufficient cash to pay such expenses. Any fee or expense paid directly or indirectly by the Company shall not be considered an Employer contribution to the Trust, provided the fee or expense relates to the ordinary and necessary administration of the Trust.

Sec. 2.07. CONTINUATION OF POWERS UPON TRUST TERMINATION. Notwithstanding anything to the contrary in this Agreement, upon termination of the Trust, the powers, rights and duties of the Trustee hereunder shall continue until all Trust assets have been liquidated and distributed out of the Trust.

Sec. 2.08. BOND. The Trustee shall be required to provide bond pursuant to the Plan for the faithful performance of its duties under the Trust and Plan, unless exempted pursuant to Section 412(a) of the ERISA.

Sec. 2.09. COMMITTEE DIRECTIONS. To the extent that decisions, determinations, directions, interpretations, and applications (collectively referred to as "administrator's determinations," and each an "administrator's determination") of the Plan shall be within the scope of the authority of the Company or its delegate, as plan administrator, the written communication of such administrator's determination shall be final and binding upon all persons, including (but not limited to) the Trustee, the Company, and all Participants and Beneficiaries unless such determination is in violation of the ERISA or any federal or state laws.

ARTICLE III
PROVISIONS RELATED TO INVESTMENT OF TRUST FUND

Sec. 3.01. **INVESTMENT OF TRUST FUND.** Employer contributions made in cash shall be used first to pay any Current Obligations. To the extent permitted by applicable law, any cash dividends paid with respect to shares of Employer Securities allocated to Participant's Accounts or held in the Suspense Account may (as required by applicable Securities Acquisition Loan documentation) be used to repay the principal balance of an outstanding Securities Acquisition Loan or interest thereon in whole or in part, or may be used to purchase additional shares of Employer Securities.

Subject to Section 2.04(aa) hereof, any cash held by the Trustee which has not yet been allocated to Participant Accounts and which is not used to repay an Securities Acquisition Loan shall be used to purchase additional Employer Securities or invested in investments selected by the Trustee or shall remain uninvested without liability for interest. Notwithstanding the foregoing, the Trustee shall not invest or reinvest any cash held in a Participant's Account in Employer Securities following the date the Participant terminates employment with the Employer for any reason. However, the Trustee may continue to hold Employer Securities existing in such Participant's Company Stock Account.

Whenever investment in Employer Securities of amounts held in the Trust Fund is required or permitted hereunder, such investment may be accomplished by a sale within the Trust. Specifically, the Company Stock Accounts of Participants, former Participants, and Beneficiaries who have become entitled to cash distributions hereunder may be liquidated by an exchange for assets held in other accounts of the Plan. The Trustee is further authorized to purchase Employer Securities from the Company or from any shareholder, and the Employer Securities may be outstanding, newly issued or treasury stock.

All purchases or exchanges of Employer Securities shall be for no more than "adequate consideration," as defined in Section 3(18) of the ERISA. If at any time there is no generally recognized market for Employer Securities, "adequate consideration" shall mean the fair market value of such Employer Securities as determined by an independent appraiser meeting requirements similar to those contained in Treasury Regulations under Section 170(a) of the Code. A determination of fair market value by such an independent appraiser will be deemed to be a good faith determination of value. In the event that there is a final determination by the Internal Revenue Service, the Department of Labor or a court of competent jurisdiction that the purchase of Employer Securities from the Company was for more than "adequate consideration," the Company shall be required to pay to the Trust an amount in cash equal to the difference between the amount paid by the Trust and the amount determined to be "adequate consideration," plus interest at 7% per annum, which the Company agrees is a reasonable rate, from the date of the purchase of the Employer Securities to the date of the payment of the difference.

Sec. 3.02. **STOCK SPLITS AND OTHER CAPITAL REORGANIZATION, DIVIDENDS.** Any Employer Securities received by the Trustee as a stock split or as a result of a reorganization or other recapitalization of the Company (collectively referred to as "stock split") shall be allocated in accordance with the terms of the Plan as of each Valuation Date under the Plan. If the Plan does not address the allocation of a stock split, the Trustee shall allocate the stock split in proportion to the Employer Securities to which they are attributable. Cash or stock in kind dividends received by the Trustee shall be reinvested in accordance with the terms of the Plan.

Sec. 3.03. VOTING OF SHARES AND TENDER OR EXCHANGE OFFERS. Employer Securities held in the Trust Fund shall be voted, tendered and exchanged by the Trustee in the manner set forth in Section 2.04 and consistent with its duties described in Section 2.03 herein.

Sec. 3.04. DISTRIBUTION OF TRUST FUND. The Trustee shall make all distributions in accordance with the direction of the Company or its delegate.

Sec. 3.05. PUT OPTION. In the event the Employer's Securities no longer qualify as a "registration type class of securities" as such phrase is defined at Code Section 409(c)(4) and: (i) the distribution of a Participant's Employer Securities Account is to be made in cash, (ii) the Trustee is required to diversify a Participant's Employer Securities Account pursuant to the Plan, or (iii) the Trustee expects to incur substantial Trust expenses which will not be paid directly by the Employer, and the Trustee determines that the Trust Fund has insufficient cash to make anticipated distributions or diversification or pay Trust expenses, the Trustee shall have a "put option" on Employer Securities it holds to put such Employer Securities to the Company pursuant to the Plan for the purpose of making such anticipated distributions, diversifications of Participant Employer Securities Accounts, and paying such expenses, and the Company agrees to honor such put and purchase the Employer Securities as put to it by the Trustee; provided, however, that the Company shall have no obligation to purchase Employer Securities pursuant to this provision if it determines, in its sole discretion, that such purchase could conflict with, or result in any violation of or default under, any contract to which the Company is a party or by which its assets are bound or any applicable order, rule or law. The Trustee will price the put of the Employer Securities for an amount that is not less than "adequate consideration" as that term is defined in Section 3(18) of the ERISA, and on terms that are fair to the Plan from a financial point of view.

Sec. 3.06. PARTICIPANT LOANS. The Trustee shall not be permitted to make loans to Participants and Beneficiaries.

ARTICLE IV VALUATION OF TRUST FUND

The Trust Fund shall be valued at fair market value, as determined by the Trustee. If there is not a generally recognized market (as contemplated by Section 3(18)(A) of the ERISA) for shares of Employer Securities, all valuations of such securities shall be made by an "Independent Appraiser" (as described in Section 401(a)(28)(C) of the Code) retained by the Trustee, and reviewed and finalized by the Trustee, in accordance with Section 3(18)(B) of the ERISA.

**ARTICLE V
NO REVERSION TO EMPLOYER**

No part of the corpus or income of the Trust Fund shall revert to any Employer or be used for, or diverted to, purposes other than for the exclusive benefit of Participants and other persons entitled to benefits under the Plan, provided, however, that:

(a) The Employer contribution under the Plan is conditioned on the initial qualification of the Plan as applied to that Employer under Sections 401(a) and 4975(e)(7) of the Code and if the Plan does not so qualify, the Trustee shall, upon written direction of the Committee, return to that Employer the amount of such contribution and any increment thereon within one calendar year after the date that qualification of the Plan, as applied to that Employer, is denied, but only if the application for qualification is submitted within the time prescribed by law.

(b) If, upon termination of the Plan with respect to any Employer, any amounts are held in a Code Section 415 suspense account which are attributable to the contributions of such Employer and such amounts may not be credited to Participant's, such amounts, upon the written direction of the Committee, will be returned to that Employer as soon as practicable after the termination of the Plan with respect to that Employer.

(c) Employer contributions under the Plan are conditioned upon the deductibility thereof under Section 404 of the Code, and, to the extent any such deduction of an Employer is disallowed by the Internal Revenue Service, the Trustee shall, upon the written direction of the Committee, return the amount of the contribution (to the extent disallowed), reduced by the amount of any losses thereon, to the Employer within one year after the date the deduction is disallowed.

(d) If a contribution or any portion thereof is made by an Employer by a mistake of fact, the Trustee shall, upon written direction of the Committee, return the amount of the contribution or such portion, reduced by the amount of any losses thereon, to the Employer within one year after the date of payment to the Trustee.

Notwithstanding the foregoing, the Trustee has no responsibility as to the sufficiency of the Trust Fund to provide any distribution to an Employer under this Article V.

**ARTICLE VI
CHANGE OF TRUSTEE**

Sec. 6.01. RESIGNATION OF THE TRUSTEE. The Trustee may resign its position at any time by giving thirty (30) days advance written notice to the Company, unless such notice period is waived by the Company. Upon resignation of the Trustee, the Company will provide the Trustee written notice of appointment of a successor Trustee and their acceptance as successor Trustee.

Sec. 6.02. REMOVAL OF THE TRUSTEE. The Company may remove the Trustee by hand delivering or by mailing by registered or certified mail, addressed to such Trustee at his or her or its last known address, at least thirty (30) days advance written notice of removal, subject to providing the removed Trustee with satisfactory written evidence of the appointment of a successor Trustee and of the successor Trustee's acceptance of the trusteeship. If two or more persons hold the position of Trustee, in the event of the removal of one such person, during any period the selection of a replacement is pending, or during any period such person is unable to serve for any reason, the remaining person or persons will act as the Trustee.

Sec. 6.03. **DUTIES OF RESIGNING OR REMOVED TRUSTEE AND OF SUCCESSOR TRUSTEE.** If the Trustee resigns or is removed, it shall promptly transfer and deliver the assets of the Trust Fund to the successor Trustee, and may reserve such amount to provide for the payment of all fees and expenses, or taxes then or thereafter chargeable against the Trust Fund, to the extent not previously paid by the Employer. The Employer shall be obligated to reimburse the Trust for any amount reserved by the Trustee. Within one hundred twenty (120) days, the resigned or removed Trustee shall furnish to the Company and the successor Trustee an account of its administration of the Trust from the date of its last account. Each successor Trustee shall succeed to the title to the Trust Fund vested in the predecessor Trustee without the signing or filing of any further instrument, but any resigning or removed Trustee shall execute all documents and do all acts necessary to vest such title or record in any successor Trustee. Each successor Trustee shall have all the powers, rights and duties conferred by this Trust as if originally named Trustee. No successor Trustee shall be personally liable for any act or failure to act of a predecessor Trustee, and no predecessor trustee shall be liable for any act of a successor trustee. With the approval of the Company, a successor Trustee may accept the account rendered and the property delivered to it by its predecessor Trustee as a full and complete discharge to the predecessor Trustee without incurring any liability or responsibility for so doing.

ARTICLE VII AMENDMENT AND TERMINATION

Sec. 7.01. **AMENDMENT.** While the Company expects and intends to continue the Plan and the Trust, the Company reserves the right to amend the Trust at any time. However, no amendment may change the rights, duties and liabilities of the Trustee under the Trust Agreement without its prior written agreement, nor reduce a Participant's benefits to less than the amount such Participant would be entitled to receive if such Participant had resigned from the employ of the Employer on the date of the amendment unless otherwise required or permitted by the Code or the ERISA. Amendments to the Trust shall be in writing and shall be effective upon execution of such amendments by both the Company and the Trustee unless otherwise agreed.

Sec. 7.02. **TERMINATION.** The Trust may be terminated as to all Employees on any date specified by the Company. The Trust will terminate as to any Employer on the first to occur of the following:

- (a) the date it is terminated by that Employer and written notice is provided thereof to the Trustee;
- (b) the date such Employer's contributions, or contributions on its behalf to the Trust, are completely discontinued and written notice is provided thereof to the Trustee;
- (c) the date such Employer is judicially declared bankrupt under Chapter 7 of the U.S. Bankruptcy Code; or
- (d) the dissolution, merger, consolidation, or reorganization of that Employer, or the sale by that Employer of all or substantially all of its assets, except that, with the consent

of the Company, such arrangements may be made whereby the Trust will be continued by any successor to that Employer or any purchaser of all or substantially all of that Employer's assets, in which case the successor or purchaser will be substituted for that Employer under the Trust.

The Trustee's powers upon termination as described above will continue until liquidation of the Trust Fund, or the portion thereof attributable to an Employer, as the case may be. Upon termination of this Trust, the Trustee shall first reserve such reasonable amounts as it may deem necessary to provide for the payment of any expenses or fees then or thereafter chargeable to the Trust Fund. Subject to such reserve, the balance of the Trust Fund shall be liquidated and distributed by the Trustee, in such form as determined by the Trustee, to or for the benefit of the Participants or their Beneficiaries, in such manner and at such times as directed by the Committee after compliance with the Plan and applicable requirements of the ERISA, as amended from time to time, or other applicable law, accompanied by a certification that the disposition is in accordance with the terms of the Plan and the Trustee need not question the propriety of such certification. The Committee shall have full responsibility to see that such manner and time of distribution is proper and within the terms of the Plan and this Trust.

ARTICLE VIII
INDEMNIFICATION, APPOINTMENT OF INVESTMENT MANAGER, AND
APPOINTMENT OF ANCILLARY TRUSTEE

Sec. 8.01. INDEMNIFICATION. The Company shall indemnify the Trustee and its officers and agents in accordance with the terms of the Engagement Agreement.

Sec. 8.02. LIMITATION ON LIABILITY - IF INVESTMENT MANAGER, ANCILLARY TRUSTEE OR INDEPENDENT FIDUCIARY APPOINTED. The Committee and Trustee shall not be liable for the acts or omissions of any Investment Manager or an ancillary trustee appointed by the Company, nor shall the Committee or Trustee be under any obligation to invest or reinvest or otherwise manage any asset of the Trust Fund which is subject to the management of a properly appointed Investment Manager or ancillary trustee. The Committee, the Trustee, the Company and any properly appointed Investment Manager or ancillary trustee may execute a letter agreement pursuant to Section 8.03 herein as a part of this Trust delineating duties, responsibilities and liabilities of the Investment Manager or ancillary trustee with respect to any part of the Trust Fund under the control of the Investment Manager or ancillary trustee.

The limitation on liability described in this Section 8.02 also applies to the acts or omissions of an ancillary trustee or independent fiduciary properly appointed under Section 8.03 hereof. However, if a Trustee, pursuant to the delegation described in Section 8.03 hereof, appoints an ancillary trustee, the Trustee is responsible for the periodic review of the ancillary trustee's actions and must exercise its delegated authority in accordance with the terms of the Trust and in a manner consistent with ERISA. The Company, the Trustee and an ancillary trustee may execute a letter agreement as a part of this Trust delineating any indemnification agreement between the parties.

Sec. 8.03. APPOINTMENT OF AN INVESTMENT MANAGER OR AN ANCILLARY TRUSTEE. The Company, in writing, may appoint any person or trust company in any state to act as an Investment Manager or as an ancillary trustee with respect to a designated portion of the Trust Fund. An Investment Manager or ancillary trustee must acknowledge in writing its acceptance of the terms and conditions of its appointment as an Investment Manager or as an ancillary trustee and its fiduciary status under ERISA. The Investment Manager and ancillary trustee have the rights, powers, duties, and discretion as the Company may delegate, subject to any limitations or directions specified in the instrument evidencing appointment of the Investment Manager or ancillary trustee and to the terms of the Trust or of ERISA. The investment powers delegated to the Investment Manager or to the ancillary trustee may include any investment powers available under Section 2.04 or Section 3.03 hereof, including but not limited to, the right to invest or reinvest any portion of the assets of the Trust Fund in Employer Securities and to invest or reinvest any portion of the assets of the Trust Fund in a common trust fund, as described in Code Section 584, or in any collective investment fund, the provisions of which govern the investment of such assets and which the Trust incorporates by this reference, but only if the Investment Manager or ancillary trustee is a bank or similar financial institution supervised by the United States or by a State and the ancillary trustee (or its affiliate, as defined in Code Section 1504) maintains the common trust fund or collective investment fund exclusively for the collective investment of money contributed by the ancillary trustee (or its affiliate) in a trustee capacity and which conforms to the rules of the Comptroller of the Currency.

The Investment Manager or ancillary trustee may resign its position at any time by providing at least thirty (30) days' advance written notice to the Company, unless the Company waives this notice requirement. The Company, in writing, may remove an Investment Manager or ancillary trustee at any time. In the event of resignation or removal, the Company may appoint another Investment Manager or ancillary trustee, return the assets to the control and management of the Trustee, or receive such assets in the capacity of the Investment Manager or ancillary trustee. The Company may delegate its responsibilities under this Section 8.03 herein to the Trustee.

If the U.S. Department of Labor (the "Department") requires engagement of an independent fiduciary to have control or management of all or a portion of the Trust Fund, the Company will appoint such independent Fiduciary, as directed by the Department. The independent fiduciary will have the duties, responsibilities, and powers prescribed by the Department and will exercise those duties, responsibilities, and powers in accordance with the terms, restrictions, and conditions established by the Department and, to the extent not inconsistent with ERISA, the terms of the Plan. The independent fiduciary must accept its appointment in writing and must acknowledge its status as a fiduciary of the Plan.

Sec. 8.04. PARTIES TO LITIGATION. Except as otherwise provided by ERISA, no Participant or Beneficiary is a necessary party or is required to receive notice of process in any court proceeding involving the Plan, the Trust, the Trust Fund or any Fiduciary of the Plan. Any final judgment entered in any proceeding will be conclusive as to the parties over which the court entering the judgment has jurisdiction.

**ARTICLE IX
MISCELLANEOUS**

Sec. 9.01. DISAGREEMENT AS TO ACTS. If there is a disagreement between the Trustee and anyone as to any act or transaction reported in any accounting, the Trustee shall have the right to have its own account settled by a court of competent jurisdiction.

Sec. 9.02. PERSONS DEALING WITH TRUSTEE. No person dealing with the Trustee shall be required to see to the application of any money paid or property delivered to the Trustee, or to determine whether or not the Trustee is acting pursuant to any authority granted to it under the Trust or the Plan.

Sec. 9.03. THIRD PARTY AND MULTIPLE TRUSTEES. No person dealing with the Trustee is obligated to see to the proper application of any money paid or property delivered to the Trustee, or to inquire whether the Trustee has acted pursuant to any of the terms of the Trust and Plan. Each person dealing with the Trustee may act upon any notice, request or representation in writing by the Trustee, or by the Trustee's duly authorized agent, and is not liable to any person in so acting. The certificate of the Trustee that it is acting in accordance with the Trust and Plan will be conclusive in favor of any person relying on the certificate.

Sec. 9.04. BENEFITS MAY NOT BE ASSIGNED OR ALIENATED. The interests of Participants, Beneficiaries and other persons entitled to benefits under the Trust and Plan are not subject to the claims of their creditors and may not be voluntarily or involuntarily assigned, alienated or encumbered, except as allowed pursuant to Code Section 401(a)(13) to the extent that the Committee, pursuant to the Plan, directs the Trustee that any such interests are subject to a qualified domestic relations order, as defined in Section 414(p) of the Code.

Sec. 9.05. EVIDENCE. Evidence required of anyone under the Trust may be by certificate, affidavit, document or other instrument which the person acting in reliance thereon considers pertinent and reliable, and signed, made or presented by the proper party.

Sec. 9.06. WAIVER OF NOTICE. Any notice required under the Trust or Plan may be waived in writing by the person entitled thereto.

Sec. 9.07. COUNTERPARTS. The Trust may be executed in any number of counterparts, each of which shall be deemed an original and no other counterparts need be produced.

Sec. 9.08. GOVERNING LAWS AND SEVERABILITY. The Trust shall be construed and administered according to the laws of the State of California to the extent that such laws are not preempted by the laws of the United States of America. If any provision of the Trust or Plan is held illegal or invalid, the illegality or invalidity shall not affect the remaining provisions of the Trust and Plan, but shall be severable, and the Trust and Plan shall be construed and enforced as if the illegal or invalid provision had never been inserted herein.

Sec. 9.09. SUCCESSORS. The Trust shall be binding on the Company, Employer and any successor thereto by virtue of any merger, sale, dissolution, consolidation or reorganization, on the Trustee and its successor and on all persons entitled to benefits under the Plan and their respective heirs and legal representatives.

Sec. 9.10. **ACTION.** Any action required or permitted to be taken by the Company under the Trust shall be by resolution of its Board of Directors or by a person or persons authorized by resolution of its Board of Directors. The Trustee shall not recognize or take notice of any appointment of any representative of the Company or Committee unless and until the Company or the Committee shall have notified the Trustee in writing of such appointment and the extent of such representative's authority. The Trustee may assume that such appointment and authority continue in effect until it receives written notice to the contrary from the Company or Committee. Any action taken or omitted to be taken by the Trustee by authority of any representative of the Company or Committee within the scope of his or her authority shall be as effective for all purposes hereof as if such action or nonaction had been authorized by the Company or Committee.

Sec. 9.11. **CONFORMANCE WITH PLAN.** Unless otherwise indicated in the Trust, all capitalized terms herein shall have the meaning as stated in the Plan. To the extent provisions of the Plan and the Trust conflict, the provisions of the Trust shall govern and the Trustee's duties and obligations shall be determined solely under the Trust.

Sec. 9.12. **HEADINGS.** The headings and sections of this Trust Agreement are for convenience or reference only and shall have no substantive effect on the provisions of this Trust Agreement.

IN WITNESS WHEREOF, the Company, by its duly authorized officer, and the Trustee, have caused this Trust Agreement to be signed on the ____ day of _____, 2008, to be effective the 1st day of January, 2008.

"COMPANY"

MCGRATH RENTCORP

By: _____
Dennis C. Kakures, President

"TRUSTEE"

NORTH STAR TRUST COMPANY

By: _____
John G. Hommel
Senior Vice President and Trust Officer

LIST OF SUBSIDIARIES

Mobile Modular Management Corporation

Enviroplex, Inc.

TRS-RenTelco Inc.

Adler Tank Rentals, LLC

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our reports dated February 25, 2009, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report of McGrath RentCorp and Subsidiaries on Form 10-K for the year ended December 31, 2008. We hereby consent to the incorporation by reference of said reports in the previously filed Registration Statements of McGrath RentCorp and Subsidiaries on Forms S-8 (File No. 333-06112, effective November 27, 1996, File No. 333-74089, effective March 9, 1999, and File No. 333-151815, effective June 20, 2008).

/s/ Grant Thornton LLP

San Francisco, California
February 25, 2009

McGRATH RENTCORP
SECTION 302 CERTIFICATION

I, Dennis C. Kakures, certify that:

1. I have reviewed this annual report on Form 10-K of McGrath RentCorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: February 25, 2009

By: /s/ Dennis C. Kakures
Dennis C. Kakures
Chief Executive Officer

McGRATH RENTCORP
SECTION 302 CERTIFICATION

I, Keith E. Pratt, certify that:

1. I have reviewed this annual report on Form 10-K of McGrath RentCorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: February 25, 2009

By: /s/ Keith E. Pratt
Keith E. Pratt
Chief Financial Officer

McGRATH RENTCORP

SECTION 906 CERTIFICATION

In connection with the periodic report of McGrath RentCorp (the "Company") on Form 10-K for the period ended December 31, 2007 as filed with the Securities and Exchange Commission (the "Report"), I, Dennis C. Kakures, Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Date: February 25, 2009

By: /s/ Dennis C. Kakures
Dennis C. Kakures
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

McGRATH RENTCORP

SECTION 906 CERTIFICATION

In connection with the periodic report of McGrath RentCorp (the "Company") on Form 10-K for the period ended December 31, 2007 as filed with the Securities and Exchange Commission (the "Report"), I, Keith E. Pratt, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Date: February 25, 2009

By: /s/ Keith E. Pratt

Keith E. Pratt
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.