Table of Contents

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, 2001

Commission file number 0-13292

McGrath Rentcorp

(Exact name of registrant as specified in its Charter)

California	**94-2579843**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

5700 Las Positas Road, Livermore, CA 94550

(Address of principal executive offices)

Registrant's telephone number: (925) 606-9200

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

Title of each class	**Name of each exchange on which registered**
None	**None**

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

Title of Class

Common Stock

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No o

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

State the aggregate market value of voting stock, held by nonaffiliates of the registrant: $274,289,807 as of March 15, 2002.

At March 15, 2002, 12,455,859 shares of Registrant's Common Stock were outstanding.

Exhibit index appears on page 50

TABLE OF CONTENTS

PART I

Item 1. *Business*

General

McGrath RentCorp (the "Company") is a California corporation organized in 1979. The Company is comprised of three business segments: "Mobile Modular Management Corporation" ("MMMC"), its modular building rental division, "RenTelco," its electronic test equipment rental division, and "Enviroplex," its majority-owned subsidiary classroom manufacturing business. The Company's corporate offices are located in Livermore, California. In addition, branch operations for both rental divisions are conducted from this facility.

MMMC rents and sells modular buildings and accessories to fulfill customers' temporary and permanent space needs in California and Texas. These units are used as temporary offices adjacent to existing facilities, and are used as classrooms, sales offices, construction field offices, health care clinics, child care facilities and for a variety of other purposes. MMMC purchases the modulars from various manufacturers who build them to MMMC's design specifications. MMMC operates from two branch offices in California and one in Texas. Although MMMC's primary emphasis is on rentals, sales of modulars routinely occur and can fluctuate quarter to quarter and year to year depending on customer demands and requirements.

The educational market is the largest segment of the modular business. MMMC provides classroom and specialty space needs serving schools from pre-school to post secondary grade levels. Fueled by increasing student population, insufficient funding for new school construction and aging school facilities, demand continues to be very strong in California. Within the educational market, rentals and sales to California public school districts by MMMC represent a significant portion of MMMC's total revenues.

RenTelco rents and sells electronic test equipment nationally from two locations. The Plano, Texas location houses the Company's communications and fiber optic test equipment inventory, calibration laboratory and eastern U.S. sales engineer and operations staffs. The Livermore, California location houses the Company's general-purpose test equipment inventory, calibration laboratory and western U.S. sales engineer and operations staffs.

Communications and fiber optic test equipment is utilized by field technicians, engineers and installer contractors in evaluating voice, data and multimedia communications networks, installing optical fiber cabling and in the development of switch, network and wireless products. This test equipment is rented primarily to network systems companies, electrical contractors, local & long distance carriers and manufacturers of communications transmission equipment. RenTelco purchases communications test equipment from over 40 different manufacturers domestically and abroad.

Engineers, scientists and technicians utilize general-purpose test equipment in evaluating the performance of their own electrical and electronic equipment, developing products, controlling manufacturing processes and in field service applications. These instruments are rented primarily to electronics, industrial, research and aerospace companies. Agilent (formerly Hewlett Packard), Tektronix and Acterna manufacture the majority of the Company's general-purpose equipment.

McGrath RentCorp owns 81% of Enviroplex, a California corporation organized in 1991. Enviroplex manufactures portable classrooms built to the requirements of the California Division of the State Architect ("DSA") and sells directly to California public school districts. Enviroplex conducts its sales and manufacturing operations from its facility located in Stockton, California. Since inception, McGrath RentCorp has assisted Enviroplex in a variety of corporate functions such as accounting, human resources, facility improvements and insurance. McGrath RentCorp has not purchased significant quantities of manufactured product from Enviroplex. Enviroplex sales revenues were $15.0 million, $17.0 million and $11.2 million in 2001, 2000 and 1999, respectively.

The rental (by MMMC) and sale (by Enviroplex and MMMC) of modulars to California 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 business from this market segment comprised approximately 34%, 35% and 34%, of the Company's consolidated rental and sales revenues for 2001, 2000 and 1999, respectively.

Please see Note 8 to the Consolidated Financial Statements on page 37 for more information on the Company's business segments.

The Company has 418 employees, of whom 48 are primarily administrative and executive personnel, and the remaining 370 are engaged in manufacturing or rental operations. Unions represent none of these employees. The operations of the Company share common facilities, financing, senior management, and operating and accounting systems, which results in the efficient use of overhead. Each product line has its own sales and technical personnel.

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

The Company operates with a marketing sense throughout. The Company is constantly searching for ways to streamline its service and to raise the quality of each relocatable office, classroom or instrument it rents, sells or manufactures. The Company not only rents, sells and manufactures products, it sells an old-fashioned idea: Paying attention to our customers pays off.

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

On December 20, 2001, the Company entered into a merger agreement with a subsidiary of Tyco International Ltd. See "Merger Agreement with Tyco" on page 9.

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

RELOCATABLE MODULAR OFFICES

Description

Modulars are designed for use as temporary office space and may be moved from one location to another. Modulars vary from simple single-unit construction site offices to attractive multi-modular facilities, complete with wood exteriors and mansard roofs. The 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 siding, sturdily built and physically capable of a useful life often exceeding 18 years. Units are provided with installed heat, air conditioning, lighting, electricity and floor covering, and may have customized interiors including partitioning, carpeting, cabinetwork and plumbing facilities.

MMMC purchases new modulars from various manufacturers who build to MMMC's design specifications. None of the principal suppliers are affiliated with the Company. During 2001, the Company purchased 34% of its modular product from one manufacturer with multiple operations in several states. The Company believes that the loss of its primary manufacturer of modulars would not have a material adverse effect on its

operations, however the Company could experience higher prices and longer lead times for modular product until other manufacturers increased their capacity.

The modular product is manufactured to state building codes, has a low risk of obsolescence, and can be modified or reconfigured to accommodate a wide variety of customer needs. MMMC proactively manages its rental equipment and believes this insures the continued use of the modular product over its long life and, when sold, generates high 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. Making these expenditures for repair and maintenance throughout the equipment's life results in older equipment renting for similar rates as newer equipment. MMMC 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 in the ordinary course of business has been on average 10 years old with sale proceeds averaging better than 95% of the equipment's capitalized cost.

Marketing

The Company's largest single demand is for temporary classroom and other educational space needs of public and private schools, colleges and universities. Management believes the demand for classrooms is caused by shifting and fluctuating school populations, the lack of state funds for new construction, the need for temporary classroom space during reconstruction of older schools and, several years ago, class size reduction (see "Classroom Rentals and Sales" below). Other customer use applications include sales offices, construction field offices, health care facilities, 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 operations space needs. The modular product offers customers quick, cost-effective space solutions while conserving their capital. The Company's branch and corporate offices, with the exception of RenTelco's Plano facility and Enviroplex's facility, are housed in various sizes of modulars.

Since most of MMMC's customer requirements are to fill temporary space needs, the Company's marketing emphasis is on rentals rather than sales. MMMC attracts customers through its dynamic web site at www.mobilemodularrents.com, and extensive yellow page advertising, telemarketing and direct mail. Customers are encouraged to visit an inventory center to view different models on display and to see a branch office, which itself is a working example of a modular application.

Because service is a major competitive factor in the rental of modulars, MMMC offers quick response to requests for information, assistance in the choice of a suitable size and floor plan, in-house customization services, rapid delivery, timely installation and maintenance of its units. Customers are able to view and select inventory for quote on MMMC's website.

Rentals

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

The customer is responsible for 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 one of MMMC's three inventory centers, and certain costs for customization. MMMC 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 tile 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, 2001, MMMC had 18,554 new or previously rented modulars in its rental fleet with an aggregate original cost including accessories of $281.2 million or an average cost per unit of $15,200. 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, 2001, fleet utilization was 86.2% and average fleet utilization during 2001 was 85.4%.

Sales

In addition to operating its rental fleet, MMMC sells modulars to customers. These sales arise out of its marketing efforts for the rental fleet. Such sales can be of either new units or used units from the rental fleet, which permits an orderly turnover of older units. During 2001, MMMC's largest sale of modulars was for new classrooms to a school district for approximately $0.6 million. This sale represented approximately 4% of MMMC's sales, 2% of the Company's consolidated sales, and less than 1% of the Company's consolidated revenues.

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

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

Competition

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

Management estimates the business of renting relocatable modular offices is an industry that today has equipment on rent or available for rent in the United States with an aggregate original cost in excess of 4.0 billion dollars. Competition in the rental and sale of relocatable modular offices is intense. Two national firms are engaged in the rental of modulars, have many offices throughout the country and may have substantially greater financial resources than MMMC. Several hundred other companies are estimated to operate regionally throughout the country. MMMC operates primarily in California and Texas. Significant competitive factors in the rental business include availability, price, services, reliability, appearance and functionality of the product. MMMC markets high quality, well constructed and attractive modulars. MMMC believes that part of the strategy for modulars should be to create facilities and infrastructure capabilities that its competitors cannot easily duplicate. The Company's facilities and related infrastructure enable it to modify modulars 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 MMMC a competitive advantage. The Company is determined to offer quick response to requests for information, experienced assistance for the first-time user, rapid delivery and timely maintenance of its units. The efficiency and responsiveness continues to be enhanced by the Company's computer based relational database programs that control its internal operations. MMMC anticipates strong competition in the future and believes its process of improvement is ongoing.

Classroom Sales by Enviroplex

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

Enviroplex manufactures moment-resistant, rigid steel framed portable classrooms built to the requirements of the DSA and sells directly to California public school districts. The moment-resistant, rigid steel-framed classroom is engineered to have the structural columns support the weight of the building. This offers the customer greater design flexibility as to overall classroom size and the placement of doors and

windows. Enviroplex fabricates most of the structural steel component parts using only mill certified sheet steel. Enviroplex's standard designs have been engineered for strength and durability using lighter weight steel. Customers are offered a wide variety of DSA pre-approved classroom sizes and features with market established pricing, saving them valuable time on their classroom project. Customization features include restrooms, computer lab setups, interior offices, cabinetwork and kitchen facilities.

During 2001, Enviroplex's largest sale was for $2.2 million of new classrooms to a school district. This sale represented 15% of Enviroplex's sales, 6% of the Company's consolidated sales and less than 2% of the Company's consolidated revenues. All of Enviroplex's sales occur in California, with most sales occurring directly with California public school districts.

Since Enviroplex's customers are predominantly California public school districts, Enviroplex markets directly to these schools through telemarketing, targeted mailings and participation in the annual CASH (Coalition for Adequate School Housing) tradeshow. Enviroplex also attracts customers through its website at www.enviroplexinc.com where customers are able to view a variety of DSA approved floor plans. Customers are encouraged to tour the manufacturing facility to experience the production process and examine the quality product built.

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

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

Enviroplex provides a one-year warranty on equipment manufactured. Warranty costs have not been significant to Enviroplex's operations to date that can be attributed to Enviroplex's dedication to manufacturing and delivering a quality, problem-free product.

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

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

The rental and sales of modulars to California 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 these schools are of the Company's modular rental and sales revenues, and of its consolidated rental and sales revenues for the past five years:

California Public Schools (K-12) as a Percentage of Rental and Sales Revenues

Percentage of:	2001	2000	1999	1998	1997
Modular Rental Revenues	49%	47%	48%	44%	45%
Modular Sales Revenues	54%	61%	52%	78%	74%
Consolidated Rental and Sales Revenues	34%	35%	34%	45%	52%

The increased modular sales percentage shown for 1998 and 1997 can be attributed to the Class Size Reduction Program instituted by the State of California. School districts were given great incentive to reduce

class size in the lower grades from 30 students to no greater than 20 students. This highly popular program created a great demand for both purchasing and renting classroom buildings and was essentially implemented by the end of 1999. In 2000, the increased modular sales percentages resulted from new requirements beyond Class Size Reduction by school districts.

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 DSA. However, school districts may rent classrooms that meet either the Department of Housing ("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. School districts have until August 31, 2002 to make the necessary modifications to extend their usage of these buildings. To the extent that school districts elect not to proceed with retrofitting these existing buildings on rent and return the equipment, rental income levels could be impacted negatively. 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. At December 31, 2001, the net book value of DOH classrooms represented less than 2.6% of the net book value of modular rental equipment and less than 1.5% of the total assets of the Company, and the utilization of these DOH classrooms was at 85.1%.

ELECTRONIC TEST AND MEASUREMENT INSTRUMENTS

Description

The Company's communications and fiber optics rental inventory includes fiber, telecom, SONET, ATM, broadcast, copper, line simulator, microwave, network and transmission test equipment. The general-purpose inventory includes oscilloscopes, amplifiers, spectrum, network and logic analyzers, and CATV, component measurement, industrial, signal source, microprocessor development and power source test equipment. The Company also rents electronic instruments from other rental companies and re-rents the instruments to customers.

At December 31, 2001, the Company had an aggregate cost of electronics rental inventory and accessories of $95.4 million. Utilization is calculated each month by dividing the cost of the rental equipment on rent by the total cost of the rental equipment, excluding accessory equipment. During 2001, utilization trended down from 63.5% as of December 31, 2000 to 34.4% as of December 31, 2001 reflecting broad-based weakness in the telecommunications industry. Average utilization during 2001 was 50.4%. Generally, the Company targets utilization levels in a range between 50% and 55%. The Company rents electronic equipment for a typical rental period of one to six months at monthly rental rates ranging from approximately 3.0% to 10.0% of the current manufacturers' list price. The Company depreciates its equipment over 5 to 8 years.

The Company endeavors to keep its equipment fresh and attempts to sell equipment so that the majority of the inventory is less than five years old. The Company generally sells used equipment after approximately four years of service to permit an orderly turnover and replenishment of the electronics inventory. In 2001, approximately 19% of the electronics revenues were derived from sales. The largest electronics sale during

2001 represented 3% of electronics sales and less than 1% of the Company's consolidated sales and consolidated revenues.

Market

The business of renting electronic test and measurement instruments is an industry which today has equipment on rent or available for rent in the United States with an aggregate original cost in excess of a half billion dollars. While there is a broad customer base for the rental of such instruments, most rentals are to electronics, communications, network systems, electrical contractor, installer contractor, industrial, research and aerospace companies.

The Company markets its electronic equipment throughout the United States. RenTelco attracts customers through its dynamic web site at www.rentelco.com, an extensive telemarketing program, trade show participation and direct mail campaigns.

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

The industry consists primarily of three major companies. One of these companies is much larger than the Company, has substantially greater financial resources and is well established in the industry with a large inventory of equipment, several branch offices and experienced personnel.

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 offices, 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

	Year Ended December 31,				
	2001	2000	1999	1998	1997
	(Dollar amounts in thousands)				
Relocatable Modular Offices					
(operating under MMMC and Enviroplex)					
Revenues					
Rental	$ 63,542	$ 56,779	$ 51,622	$ 47,957	$ 41,514
Rental Related Services	17,117	16,462	12,542	11,007	9,898
Total Modular Rental Operations	80,659	73,241	64,164	58,964	51,412
Sales — MMMC	15,758	23,831	16,100	23,171	33,522
Sales — Enviroplex	14,993	16,992	11,150	20,672	21,287
Total Modular Sales	30,751	40,823	27,250	43,843	54,809
Other	644	423	500	448	656
Total Modular Revenues	$112,054	$114,487	$ 91,914	$103,255	$106,877
Percentage of Rental Revenues	63.1%	59.8%	65.5%	66.6%	67.3%
Percentage of Total Revenues	70.3%	69.7%	70.7%	76.2%	79.2%
Rental Equipment, at cost (year-end)	$281,203	$261,081	$238,449	$216,444	$196,133
Rental Equipment, net book value (year-end)	$197,764	$187,059	$171,166	$156,790	$142,816
Number of Units (year-end)	18,554	17,555	16,230	15,139	14,240
Utilization (year-end)(1)	86.2%	84.9%	80.2%	83.0%	83.0%
Average Utilization(1)	85.4%	82.3%	81.6%	83.1%	81.6%
Average Rental Equipment, at cost(2)	$272,339	$238,408	$213,571	$186,865	$161,821
Annual Yield on Average Rental Equipment, at cost	23.3%	23.8%	24.2%	25.7%	25.7%
Gross Margin on Rental Revenues	55.2%	50.2%	55.3%	56.2%	59.0%
Gross Margin on Sales	30.9%	28.0%	29.5%	30.8%	31.2%
Electronic Test and Measurement Instruments					
(operating under RenTelco)					
Revenues					
Rental	$ 37,180	$ 38,152	$ 27,132	$ 24,010	$ 20,174
Rental Related Services	710	723	501	521	380
Total Electronics Rental Operations	37,890	38,875	27,633	24,531	20,554
Sales	8,784	10,201	9,789	7,201	7,212
Other	666	595	626	441	333
Total Electronics Revenues	$ 47,340	$ 49,671	$ 38,048	$ 32,173	$ 28,099
Percentage of Rental Revenues	36.9%	40.2%	34.5%	33.4%	32.7%
Percentage of Total Revenues	29.7%	30.3%	29.3%	23.8%	20.8%
Rental Equipment, at cost (year-end)	$ 95,419	$ 92,404	$ 72,832	$ 66,573	$ 50,351
Rental Equipment, net book value (year-end)	$ 57,758	$ 60,343	$ 46,012	$ 43,238	$ 31,270
Utilization (year-end)(1)	34.4%	63.5%	54.4%	51.5%	52.6%
Average Utilization(1)	50.4%	61.4%	53.8%	54.6%	54.9%
Average Rental Equipment, at cost	$ 97,715	$ 82,401	$ 68,420	$ 56,859	$ 46,483
Annual Yield on Average Rental Equipment, at cost	38.0%	46.3%	39.7%	42.2%	43.4%
Gross Margin on Rental Revenues	56.6%	63.8%	59.5%	61.5%	61.7%
Gross Margin on Sales	32.7%	32.6%	29.7%	32.9%	33.2%
Total Revenues	$159,394	$164,158	$129,962	$135,428	$134,976

(1) Utilization is calculated each month by dividing the cost of the 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 costs for the year.

(2) Average rental equipment, at cost for modulars excludes new equipment inventory and accessory equipment.

MERGER AGREEMENT WITH TYCO

On December 20, 2001, the Company entered into an agreement (the "Merger Agreement") with a subsidiary of Tyco International Ltd. ("Tyco"). Under the terms of the Merger Agreement, the Company would be merged into the Tyco subsidiary, with the Tyco subsidiary continuing as the surviving corporation and as a wholly-owned subsidiary of Tyco (the "Merger"). Tyco has guaranteed (the "Guarantee") the obligations of its subsidiary under the Merger Agreement. The Merger Agreement provides that the consideration to be paid by Tyco will be in the form of cash and Tyco common shares. The Company's shareholders are to have the right to elect what percentage of their consideration is to be paid in cash and what percentage is to be paid in Tyco common shares, subject to the limitation that no less than 50% and no more than 75% of the aggregate consideration to be paid to all shareholders be in the form of Tyco common shares. If the Company's shareholders in total elect to receive more cash or more Tyco common shares than these limits allow, the Company's shareholders that elect the consideration that exceeds the relevant limit will receive a combination of cash and Tyco common shares.

Subject to this limitation, McGrath shareholders electing to receive cash will receive $38.00 for each share of the Company's Common Stock; shareholders electing to receive Tyco common shares will receive a fraction (the "Exchange Ratio") of a Tyco common share, determined by dividing $38.00 by the average trading price of Tyco's common shares for the five trading days ending on the fourth trading day prior to the date of the Company's shareholders meeting to consider approval of the Merger. The Merger Agreement provides, however, that Tyco may terminate the agreement if its average share price is less than $45.00 at the time of the calculation of the Exchange Ratio, unless the Company agrees to a fixed Exchange Ratio of .8444 of a Tyco common share for each share of the Company's stock, or the parties agree to some other Exchange Ratio. At the time the Merger Agreement was entered into, Tyco's share price was $57.20 per share. As of March 15, 2002, the closing price of Tyco common shares was $33.41.

Certain officers and directors of the Company owning approximately 24% of the outstanding shares of the Company's Common Stock have entered into agreements ("Shareholder Agreements") pursuant to which such shareholders agreed, among other things, to vote their shares of the Company's Common Stock in favor of the Merger.

The consummation of the Merger is subject to the approval of the shareholders of the Company, the receipt of necessary approvals under United States and any applicable foreign antitrust laws, and other conditions.

On March 12, 2002, CIT Group Inc., a subsidiary of Tyco formerly known as Tyco Capital Corporation, filed a General Form for Registration of Securities on Form 10 in connection with a proposed distribution of 100% of the shares of its common stock to Tyco shareholders. CIT Group's Form 10 states that, prior to developing its current plan to distribute the common stock of CIT Group, Tyco intended to integrate the Company's business with CIT Group's business. The Form 10 also states that if Tyco's acquisition of the Company is completed pursuant to the Merger Agreement, Tyco currently would expect to retain McGrath as part of Tyco's business.

The Merger Agreement may be terminated by either Tyco or the Company if the Merger is not consummated by June 30, 2002. Although Tyco filed a registration statement with respect to the Merger with the SEC on January 8, 2002, the SEC has not yet declared the registration statement effective. Approval of the Company's shareholders cannot be sought until the SEC declares the registration statement effective. If the registration statement does not become effective in time for the Company to obtain shareholder approval prior to June 30, 2002, each party may have the right to terminate the Merger Agreement. In addition, if the market price for Tyco common shares is below $45 per share, the Company may elect to not agree to a fixed Exchange Ratio and Tyco will have the right to terminate the Merger Agreement. In light of these circumstances, including Tyco's announced intention to restructure its business and divest itself of the CIT Group, the Company believes there is no assurance that the Merger will be consummated.

The Merger Agreement (with the Guarantee) was attached as Exhibit 99.1, and the form of Shareholder Agreement was attached as Exhibit 99.2, to the Company's Current Report on Form 8-K filed with the SEC

on December 26, 2001. The foregoing description of the Merger, the Merger Agreement, the Guarantee and the Shareholder Agreements does not purport to be a complete description and is qualified by reference to the full text of those documents attached as exhibits to the Company's Current Report on Form 8-K.

Item 2. ***Properties***

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

During 2000, the Company developed a 39,110 square foot office and warehouse facility on 2.6 acres of land in Plano, Texas. RenTelco relocated its operations from Richardson, Texas to the new Plano facility in September 2000 and currently occupies half of the constructed space. The Company has subleased the remaining half of the facility on a five-year lease beginning in March 2001.

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, 2001. The Company owns all properties, except as noted in footnote 4 of the Facilities table below.

Facilities

		Square Footage		
	Total Acres	Office	Warehouse	Total
Corporate Offices				
Livermore, California(1)	—	9,840	—	9,840
Relocatable Modular Offices				
Livermore, California(1)(2)	139.7	7,680	53,440	61,120
Mira Loma, California	78.5	7,920	45,440	53,360
Pasadena, Texas	50.0	3,868	24,000	27,868
Electronic Test and Measurement Instruments				
Livermore, California(1)	—	8,400	7,920	16,320
Plano, Texas(3)	2.6	28,337(3)	10,773	39,110
Enviroplex, Inc.				
Stockton, California(4)	16.9(4)	5,825(4)	120,080(4)	125,905
Other				
Corona, California(5)	10.4	—	—	—
Arlington, Texas(6)	1.8	1,680	2,387	4,067
	302.9	73,550	264,040	337,590

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

(2) Of the 139.7 acres, 2.2 acres with an 8,000 square foot warehouse facility is rented out to a third party through March 2008, 2.2 acres to a third party through October 2005 and 35.8 acres are undeveloped.

(3) The office and warehouse facility was completed and occupied in October 2000. Of the 28,337 square feet of office space, 19,152 square feet was rented to a third party through February 2006.

(4) Of the 19.9 acres, 6 acres are rented through June 2002. The leased facility includes 2,460 square feet of office space and 18,030 square feet of warehouse space.

(5) Facility is for sale or lease.

(6) Facility rented out to a third party on a month to month basis.

Item 3. ***Legal Proceedings***

None.

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***

The Company's common stock is traded in the NASDAQ National Market System 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

	2001				2000			
	4Q	3Q	2Q	1Q	4Q	3Q	2Q	1Q
High	$37.69	$26.70	$27.50	$22.50	$19.88	$19.88	$18.13	$17.88
Low	$20.01	$20.22	$21.63	$17.63	$15.00	$15.00	$14.00	$14.88
Close	$37.52	$21.51	$24.14	$21.88	$19.38	$19.00	$17.00	$15.88
Dividends Declared	$ 0.16	$ 0.16	$ 0.16	$ 0.16	$ 0.14	$ 0.14	$ 0.14	$ 0.14

As of March 15, 2002, the Company's common stock was held by approximately 95 shareholders of record, which does not include shareholders whose shares are held in street or nominee name. The Company believes that when holders in street or nominee name are added, the number of holders of the Company's common stock exceeds 500.

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

Subsequent to March 15, 2002, the Company will issue an aggregate of 6,736 shares of its common stock to Dennis C. Kakures and Thomas J. Sauer, both officers of the Company, pursuant to the Company's Long-Term Stock Bonus Plan. (See "Item 11. Executive Compensation — Long Term Stock Bonus Plans" below for description.) Under the same Plan, the Company had issued to the same two officers an aggregate of 4,948 shares of common stock in March 2001, 20,920 shares of common stock in March 2000 and 33,486 shares of common stock in March 1999. These issuances were exempt from the registration requirements of the Securities Act of 1933 by virtue of section 4(2) thereof and Regulation 230.506.

Item 6. ***Selected Financial Data***

The following table summarizes the Company's selected financial data for the five years ended December 31, 2001 and should be read in conjunction with the more detailed Consolidated Financial Statements and related notes reported in Item 8 below.

	Year Ended December 31,				
	2001	2000	1999	1998	1997
	(Dollar and share amounts in thousands, except per share data)				
Selected Consolidated Financial Data					
Operations Data					
Revenues					
Rental	$100,722	$ 94,931	$ 78,754	$ 71,967	$ 61,688
Rental Related Services	17,827	17,185	13,043	11,528	10,278
Rental Operations	118,549	112,116	91,797	83,495	71,966
Sales	39,535	51,024	37,039	51,044	62,021
Other	1,310	1,018	1,126	889	989
Total Revenues	159,394	164,158	129,962	135,428	134,976
Costs and Expenses					
Direct Costs of Rental Operations					
Depreciation	27,270	23,850	19,780	16,862	14,358
Rental Related Services	10,654	9,304	7,153	6,531	6,287
Other	17,298	18,250	14,284	13,390	10,375
Total Direct Costs of Rental Operations	55,222	51,404	41,217	36,783	31,020
Cost of Sales	27,172	36,256	26,078	35,189	42,550
Total Costs	82,394	87,660	67,295	71,972	73,570
Gross Margin	77,000	76,498	62,667	63,456	61,406
Selling and Administrative	24,955	19,982	17,103	16,220	15,957
Income from Operations	52,045	56,516	45,564	47,236	45,449
Interest	7,078	8,840	6,606	6,326	4,070
Income before Provision for Income Taxes	44,967	47,676	38,958	40,910	41,379
Provision for Income Taxes	17,807	19,762	14,874	16,010	16,323
Income before Minority Interest	27,160	27,914	24,084	24,900	25,056
Minority Interest in Income of Subsidiary	482	670	251	1,005	1,011
Income before Effect of Accounting Change	26,678	27,244	23,833	23,895	24,045
Cumulative Effect of Accounting Change, net of tax(1)	—	—	(1,367)	—	—
Net Income	$ 26,678	$ 27,244	$ 22,466	$ 23,895	$ 24,045

	Year Ended December 31,				
	2001	2000	1999	1998	1997
	(Dollar and share amounts in thousands, except per share data)				
Earnings Per Share:					
Basic					
Income before Cumulative Effect of Accounting Change	$ 2.18	$ 2.21	$ 1.80	$ 1.69	$ 1.60
Cumulative Effect of Accounting Change, net of tax(1)	—	—	(0.10)	—	—
Net Income	$ 2.18	$ 2.21	$ 1.70	$ 1.69	$ 1.60
Diluted					
Income before Cumulative Effect of Accounting Change	$ 2.14	$ 2.19	$ 1.78	$ 1.67	$ 1.58
Cumulative Effect of Accounting Change, net of tax(1)	—	—	(0.10)	—	—
Net Income	$ 2.14	$ 2.19	$ 1.68	$ 1.67	1.58
Shares Used in Per Share Calculation:					
Basic	12,232	12,334	13,235	14,163	14,982
Diluted	12,495	12,428	13,383	14,349	15,181
Cash Dividends Declared Per Common Share	$ 0.64	$ 0.56	$ 0.48	$ 0.40	$ 0.32
Pro Forma Amounts Assuming Change had been in effect during 1998 and 1997					
Net Income	$ 26,678	$ 27,244	$ 23,833	$ 23,697	$ 23,816
Earnings Per Share — Basic	$ 2.18	$ 2.21	$ 1.80	$ 1.67	$ 1.59
Earnings Per Share — Diluted	$ 2.14	$ 2.19	$ 1.78	$ 1.65	$ 1.57
Balance Sheet Data (at period end)					
Rental Equipment, at cost	$376,622	$353,485	$311,281	$282,987	$246,484
Rental Equipment, net	$255,522	$247,402	$217,178	$200,028	$174,086
Total Assets	$354,884	$357,246	$297,722	$278,676	$252,392
Notes Payable	$104,140	$126,876	$110,300	$ 97,000	$ 82,000
Shareholders' Equity	$131,595	$108,958	$ 95,403	$105,394	$ 98,646
Shares Issued and Outstanding	12,335	12,125	12,546	13,970	14,522
Book Value Per Share	$ 10.67	$ 8.99	$ 7.60	$ 7.54	$ 6.79
Debt (Total Liabilities) to Equity	1.70	2.28	2.12	1.64	1.56
Debt (Notes Payable) to Equity	0.79	1.16	1.16	0.92	0.83
Return on Average Equity	22.0%	26.7%	22.7%	24.0%	24.5%

(1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations — General" below for a discussion of the change in accounting method for rental revenue recognition in response to SAB No. 101.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

Results of Operations

General

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

The major portion of the Company's revenue is derived from rental operations comprising approximately 74% of consolidated revenues in 2001 and 72% of consolidated revenues for the three years ended December 31, 2001. Over the past three years modulars comprised 68% of the cumulative rental operations, and electronics comprised 32% of the cumulative rental operations.

Most of the Company's leases with customers are accounted for as operating leases in accordance with Statement of Financial Standards ("SFAS") No. 13, and as such, rental revenue is recognized on a straight-line basis over the term of the lease. Effective January 1, 1999, rental revenue is recognized ratably over the month on a daily basis. Rental billings for periods extending beyond the month end are recorded as deferred income. In prior years, only rental billings extending beyond a one-month billing period were recorded as deferred income (i.e. partial month billings for days beyond month end were not deferred). The new method of recognizing revenue was adopted after the Company undertook a review of its revenue recognition policies after the Securities and Exchange Commission issued its Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition." The effect is reported as a change in accounting method in accordance with Accounting Principles Board Opinion ("APB") No. 20, "Accounting Changes." In 1999, the cumulative effect of changing to a new method of accounting effective January 1, 1999 was to decrease net income by $1.4 million (net of taxes of $0.9 million) or $0.10 per diluted share.

The Company sells both modular and electronic equipment that is new, previously available for rent, or manufactured by its majority owned subsidiary, Enviroplex. In the case of some modular equipment, the Company acts as a dealer of relocatable modular offices and is licensed as a dealer by governmental agencies in California and Texas. Sales and other revenues of both modular and electronic equipment have comprised approximately 26% of the Company's consolidated revenues in 2001 and 28% of the Company's consolidated revenues over the last three years. During these three years, modular sales and other revenues represented 77% and electronic sales represented 23%.

The rental and sale of modulars to California public school districts is a significant part of the Company's business. The business from this market segment comprised 34%, 35% and 34% of the Company's consolidated rental and sales revenues for 2001, 2000 and 1999. (See "Item 1. Business — Relocatable Modular Offices — Classroom Rentals and Sales" above.)

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

	Percent of Revenues				Percent Change	
	Three Years 2001-1999	Year Ended December 31, 2001	2000	1999	2001 over 2000	2000 over 1999
Revenues						
Rental	61%	63%	58%	61%	6%	21%
Rental Related Services	11	11	10	10	4	32
Rental Operations	72	74	68	71	6	22
Sales	28	25	31	28	(23)	38
Other	nm	1	1	1	nm	nm
Total Revenues	100%	100%	100%	100%	(3)%	26%
Costs and Expenses						
Direct Costs of Rental Operations Depreciation	16	17	15	15	14	21
Rental Related Services	6	7	6	6	15	30
Other	11	11	10	11	(5)	28
Total Direct Costs of Rental Operations	33	35	31	32	7	25
Cost of Sales	19	17	22	20	(25)	39
Total Costs	52	52	53	52	(6)	30
Gross Margin	48	48	47	48	1	22
Selling and Administrative	14	15	13	13	25	17
Income from Operations	34	33	34	35	(8)	24
Interest	5	5	5	5	(20)	34
Income before Provision for Income Taxes	29	28	29	30	(6)	22
Provision for Income Taxes	12	11	12	11	(10)	33
Income before Minority Interest	17	17	17	19	(3)	16
Minority Interest in Income of Subsidiary	nm	nm	nm	1	nm	nm
Income before Effect of Accounting Change	17	17	17	18	(2)	14
Cumulative Effect of Accounting Change, net of tax	nm	nm	nm	1	nm	nm
Net Income	17%	17%	17%	17%	(2)%	21%

nm = not meaningful

Fiscal Years 2001 and 2000

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

Rental revenues increased $5.8 million (6%) over 2000, with MMMC increasing $6.8 million and RenTelco decreasing $1.0 million. MMMC benefited from another year of strong classroom demand in California while RenTelco suffered its first year-over-year decline in rental revenues due to continued broad-based weakness in the telecommunications industry. For MMMC as of December 31, 2001, modular utilization was 86.2% and modular equipment on rent increased by $21.5 million compared to a year earlier.

Average utilization for modulars, excluding new equipment not previously rented, increased from 82.3% in 2000 to 85.4% in 2001 while the annual yield declined slightly from 23.8% to 23.3% as a result of lower rental rates due a change in the mix of business. For RenTelco, electronics utilization trended down during the year from 63.5% at December 31, 2000 to 34.4% at December 31, 2001, and electronics equipment on rent decreased by $25.7 million compared to a year earlier as demand weakened for this short-term rental product. Average utilization for electronics decreased from 61.4% in 2000 to 50.4% in 2001 with the annual yield decreasing from 46.3% in 2000 to 38.0% in 2001. Looking forward, the Company intends to proactively sell its underutilized electronics rental inventory in 2002.

Depreciation on rental equipment in 2001 increased $3.4 million (14%) over 2000, with MMMC increasing $0.9 million and RenTelco increasing $2.5 million due to additional rental equipment purchased during 2001 and 2000. For MMMC, as rental revenues increased 12%, depreciation expense increased 8% and average modular equipment, at cost, increased 8% or $21.1 million over 2000 resulting in depreciation as a percentage of rental revenues declining slightly from 22% in 2000 to 21% in 2001. For RenTelco, as rental revenues declined 3%, depreciation expense increased 22% and average electronics equipment, at cost, increased $15.3 million (19%) over 2000 resulting in depreciation as a percentage of revenues increasing from 30% in 2000 to 37% in 2001. Other direct costs of rental operations decreased $1.0 million (5%) from 2000 primarily due to $1.9 million of impairment losses recorded in 2000 on rental equipment that was beyond economic repair (such a charge did not occur in 2001) offset by increased maintenance and repair expenses of the modular fleet. Consolidated gross margin on rents increased slightly from 55.7% in 2000 to 55.8% in 2001.

Rental related services revenues in 2001 increased $0.6 million (4%) over 2000 as a result of a higher volume of modular equipment movements and site requirements in 2001. Gross margin on these services decreased from 45.9% in 2000 to 40.2% in 2001.

Sales in 2001 decreased $11.5 million (23%) from 2000 primarily as a result of lower sales volume by both MMMC and Enviroplex. MMMC sales volume decreased $8.1 million due to the occurrence of several significant sales in 2000 and Enviroplex sales decreased $2.0 million due to lower order volume. Sales continue to occur routinely as a normal part of the Company's rental business; however, these sales can fluctuate from quarter to quarter and year to year depending on customer requirements and funding. Consolidated gross margin on sales increased from 28.9% in 2000 to 31.3% in 2001.

Enviroplex's backlog of orders as of December 31, 2001 and 2000 was $4.9 million and $6.8 million, respectively. Typically, in the California classroom market, booking activity for the first half of the year provides the most meaningful information towards determining order levels to be produced for the entire year. (Backlog is not significant in MMMC's modular business or in RenTelco's electronic business.)

Selling and administrative expenses in 2001 increased $5.0 million (25%) over 2000. The increase is due primarily to nonrecurring expenses of $1.9 million related to the Merger Agreement with Tyco (see "Item 1. Business — Merger Agreement with Tyco" page 10), increases in bad debt expense of $1.1 million, web maintenance and development costs of $0.8 million, depreciation and amortization expense of $0.5 million and personnel and benefit costs of $0.2 million.

Interest expense in 2001 decreased $1.8 million (20%) from 2000 as a result of 2% lower debt levels and 19% lower average interest rates over a year earlier.

Income before provision for taxes in 2001 decreased $2.7 million (6%) from 2000 and net income decreased $0.6 million (2%) with earnings per diluted share decreasing 2% from $2.19 per diluted share in 2000 to $2.14 per diluted share in 2001. The lower percentage decrease for net income is due to a higher effective tax rate of 41.5% in 2000 as compared to 39.6% in 2001. The higher effective tax rate in 2000 resulted from recording a true-up of the state income tax accrual rate.

Excluding merger-related expenses, net income and earnings per share would have increased from $27.2 million and $2.19 per diluted share in 2000 to $27.8 million and $2.23 per diluted share in 2001.

Fiscal Years 2000 and 1999

Rental revenues increased $16.2 million (21%) over 1999, with MMMC contributing $5.2 million and RenTelco contributing $11.0 million of the increase. As of December 31, 2000, rental equipment on rent increased for MMMC by $30.7 million and for RenTelco by $19.0 million compared to a year earlier. Average utilization for modulars, excluding new equipment not previously rented, increased from 81.6% in 1999 to 82.3% in 2000 while the annual yield declined slightly for modulars from 24.2% to 23.8% as a result of lower rental rates due to the mix of business activity. Average utilization for electronics increased dramatically from 53.8% in 1999 to 61.4% in 2000 with electronics annual yield increasing from 39.7% in 1999 to 46.3% in 2000 resulting from increased market demand.

Depreciation on rental equipment in 2000 increased $4.1 million (21%) over 1999 due to additional rental equipment purchased during 2000 and 1999. The average modular rental equipment, at cost, increased $23.9 million (11%) and average electronics rental equipment, at cost, increased $14.0 million (20%) over 1999. Other direct costs of rental operations increased $4.0 million (28%) over 1999 primarily due to the $1.9 million of impairment losses recorded on rental equipment that was beyond economic repair and increased maintenance and repair expenses of the modular fleet. Consolidated gross margin on rents declined slightly from 56.8% in 1999 to 55.7% in 2000.

In the second quarter of 2000, management began a comprehensive program to evaluate its strategies with regard to off-rent modular equipment. All off-rent equipment was inspected over the remainder of 2000 and decisions about whether to invest additional dollars to repair the equipment for rental or sale, or whether to scrap the equipment were made. As a result of the process, an impairment charge of $1.9 million was recorded. Management continues to proactively manage its off-rent inventory and will record impairment charges if the projected future cash flows from rental or sales of equipment are insufficient to cover its net book value of the equipment.

Rental related services revenues in 2000 increased $4.1 million (32%) over 1999 as a result of a higher volume of modular equipment movements and site requirements in 2000. Gross margins on these services increased slightly from 45.2% in 1999 to 45.9% in 2000.

Sales in 2000 increased $14.0 million (38%) over 1999 as a result of three significant sales by MMMC accounting for 56% of the increase and a $5.8 million increase in sales by Enviroplex to school districts. During 2000, the Company's largest sale was recorded during the third and fourth quarter for new classrooms to a school district for approximately $4.4 million and represented 9% of its sales. Sales continue to occur routinely as a normal part of the Company's rental business; however, these sales can fluctuate from quarter to quarter and year to year depending on customer requirements and funding. Consolidated gross margin on sales declined slightly from 29.6% in 1999 to 28.9% in 2000.

Enviroplex's backlog of orders as of December 31, 2000 and 1999 was $6.8 million and $12.6 million, respectively. Typically, in the California classroom market, booking activity for the first half of the year provides the most meaningful information towards determining order levels to be produced for the entire year. (Backlog is not significant in MMMC's modular business or in RenTelco's electronic business.)

Selling and administrative expenses in 2000 increased $2.9 million (17%) over 1999. The increase is due primarily to increases in salaries, incentive and performance bonuses, benefits and hiring costs during 2000. As a percentage of revenues, selling and administrative expenses for 2000 remained consistent with 1999.

Interest expense in 2000 increased $2.2 million (34%) over 1999 as a result of 17% higher debt levels and 15% higher average interest rates over a year earlier. During 2000, the higher debt levels resulted from capital investments other than rental equipment, payment of dividends and repurchases of common stock.

Income before provision for taxes in 2000 increased $8.7 million (22%) from 1999 and net income before effect of the accounting change increased $3.4 million (14%). The lower percentage increase for net income before effect of the accounting change is due to a higher effective tax rate of 41.5% in 2000 as compared to 38.1% in 1999. The higher effective tax rate in 2000 resulted from recording a true-up of the state income tax accrual rate.

Net income increased 21% from $22.5 million in 1999 to $27.2 million in 2000 with earnings per diluted share increasing 30% from $1.68 per diluted share in 1999 to $2.19 per diluted share in 2000. Last year's comparative net income included a one-time accounting charge of $1.4 million or $0.10 per diluted share. Excluding the impact of the one-time accounting charge, net income for 1999 would have been $23.8 million or $1.78 per diluted share resulting in comparative net income increasing 14% and diluted earnings per share increasing 23% in 2000.

Liquidity and Capital Resources

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

The Company's rental businesses are capital intensive, with significant capital expenditures required to maintain and grow the 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. As the following table indicates, cash flow provided by operating activities and proceeds from sales of rental equipment have been sufficient to fund the rental equipment purchases in the past three years.

Funding of Rental Asset Growth

	Year Ended December 31,			Three Year Totals
	2001	2000	1999	
	(Amounts in thousands)			
Cash Provided by Operating Activities	$ 58,938	$49,966	$53,235	$162,139
Proceeds from the Sale of Rental Equipment	$ 18,015	$18,380	$16,352	$ 52,747
Total Cash Available for Purchase of Rental Equipment	$ 76,953	$68,346	$69,587	$214,886
Notes Payable Increase (Decrease)	$(22,736)	$16,576	$13,300	$ 7,140
Purchases of Rental Equipment	$ 46,877	$67,389	$47,310	$161,576

In addition to increasing its rental assets, the Company has invested in other capital expenditures of $1.6 million in 2001, $3.4 million in 2000 and $2.3 million in 1999, and has used significant cash to provide returns to its shareholders, both in the form of cash dividends and by stock repurchases. The Company has made purchases of shares of its common stock from time to time in the over-the-counter market (NASDAQ) and/or through privately negotiated, large block transactions under an authorization of the Board of Directors. Shares repurchased by the Company are canceled and returned to the status of authorized but unissued stock. As of March 15, 2002, 805,800 shares 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

	Year Ended December 31,			Three Year Totals
	2001	2000	1999	
	(Amounts in thousands, except per share data)			
Cash Dividends Paid	$7,582	$ 6,675	$ 6,134	$20,391
Shares Repurchased	—	451	1,550	2,001
Average Price Per Share	$ —	$ 16.33	$ 18.21	$ 17.78
Aggregate Purchase Price	$ —	$ 7,364	$28,212	$35,576
Total Cash Returned to Shareholders	$7,582	$14,039	$34,346	$55,967

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, which limit is currently $120.0 million. The Company decreased its borrowings under this line by $25.3 million during the year, and at December 31, 2001, the outstanding borrowings under this line were $69.5 million. In addition to the $120.0 million line of credit, the Company has a $5.0 million

committed line of credit facility related to its cash management services of which $2.6 million was outstanding as of December 31, 2001. The Company had a total liabilities to equity ratio of 1.70 to 1 and 2.28 to 1 as of December 31, 2001 and 2000, respectively; and the debt (notes payable) to equity ratio was 0.79 to 1 and 1.16 to 1 at December 31, 2001 and 2000, respectively. Although no assurance can be given, the Company believes it will continue to be able to negotiate higher limits on its general bank lines of credit adequate to meet capital requirements not otherwise met by operational cash flows and long term debt.

In July 1998, the Company completed a private placement of $40.0 million of 6.44% Senior Notes due in 2005. Interest on the notes is due semi-annually in arrears and the principal is due in five equal installments, which commenced on July 15, 2001. The outstanding balance at December 31, 2001, was $32.0 million.

Please see the Company's Consolidated Statements of Cash Flows on 26 for a more detailed presentation of the sources and uses of the Company's cash.

The Company does not have any material commitments or obligations requiring the expenditure of cash in the future inconsistent with its expenditures in the periods reported herein. In June 2001, the Company settled a lawsuit, which had been brought against it and seventeen other defendants alleging failure to warn about certain chemicals associated with the building materials used in portable classrooms in California. As part of the settlement, the Company agreed to use alternative building materials. (Please see the Company's Quarterly Report on Form 10-Q filed with the SEC on August 8, 2001 for further details of this settlement.) The Company believes this will not have a material adverse effect on its costs of operations and does not expect an adverse impact on its liquidity. The Company believes that its needs for working capital and capital expenditures through 2001 and beyond will be adequately met by operational cash flow, proceeds from sale of rental equipment, and 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 because it believes it has the ability to increase its bank borrowings and to reduce materially the amount of cash it uses to purchase rental equipment, pay dividends and repurchase its common stock in the future if a need to conserve cash should arise unexpectedly.

Critical Accounting Policies

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

In response to the Securities and Exchange Commission's Release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," the Company 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 are related to rental equipment depreciation, maintenance and repair, and impairment. 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, supply or demand and internal factors may include, but are not limited to, changes in equipment specifications or maintenance policies. For electronics equipment, external factors to consider may include, but are not limited to, technological advances, changes in manufacturers' selling prices, supply or demand and internal factors may include, but are not limited to, changes in equipment specifications or 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.

In the first quarter of 2002, the Company continued to evaluate its rental equipment depreciation and residual value policies. A decision was made in the first quarter 2002 that effective January 1, 2002, the Company would prospectively increase its modular rental equipment residual value from 18% to 50%. Additionally, effective January 1, 2002, the estimated useful life of $16.3 million of optical equipment would be prospectively changed from seven to five years.

Maintenance and Refurbishment — Maintenance and repairs are expensed as incurred. The direct material and labor costs of value-added additions or major refurbishment of modular offices are capitalized to the extent the refurbishment significantly improves the quality and adds value or life to the equipment. Judgement 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 up-grades. Only major refurbishment costs incurred near the end of the estimated useful life of the rental equipment, which extend its useful life, 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 the economy, it is reasonably possible that actual results of operating and disposing of rental equipment could be materially different than current expectations.

Market Risk

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

The Company currently has no material derivative financial instruments that expose the Company to significant 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. The table below presents principal cash flows and related weighted average interest rates of the Company's notes payable at December 31, 2001 by expected maturity dates. Weighted average variable rates are based on implied forward rates in the yield curve at the reporting date.

	2002	2003	2004	2005	Total	Fair Value
			(Dollar amounts in thousands)			
Fixed Rate	$8,000	$8,000	$ 8,000	$8,000	$32,000	$32,000
Average Interest Rate	6.44%	6.44%	6.44%	6.44%	6.44%	
Variable Rate	$ —	$ —	$72,140	$ —	$72,140	$72,140
Average Interest Rate	—	—	3.20%	—	3.20%	

Impact of Inflation

Although the Company cannot precisely determine the effect of inflation, from time to time it has experienced increases in costs of rental equipment, manufacturing costs, operating expenses and interest. Because most of its rentals are relatively short term, the Company has generally been able to pass on such increased costs through increases in rental rates and selling prices.

Item 8. ***Financial Statements and Supplementary Data***

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors of McGrath RentCorp:

We have audited the accompanying consolidated balance sheets of McGrath RentCorp (a California corporation) and Subsidiary as of December 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. 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 auditing standards generally accepted in the 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of McGrath RentCorp and Subsidiary as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 2 to the consolidated financial statements, the Company changed its method of accounting for rental revenue effective January 1, 1999 whereby all rental revenues are recognized ratably over the month on a daily basis.

ARTHUR ANDERSEN LLP

San Francisco, California

February 8, 2002

MCGRATH RENTCORP

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2001	2000	1999
	(In thousands, except per share amounts)		
Revenues			
Rental	$100,722	$ 94,931	$ 78,754
Rental Related Services	17,827	17,185	13,043
Rental Operations	118,549	112,116	91,797
Sales	39,535	51,024	37,039
Other	1,310	1,018	1,126
Total Revenues	159,394	164,158	129,962
Costs and Expenses			
Direct Costs of Rental Operations			
Depreciation	27,270	23,850	19,780
Rental Related Services	10,654	9,304	7,153
Other	17,298	18,250	14,284
Total Direct Costs of Rental Operations	55,222	51,404	41,217
Cost of Sales	27,172	36,256	26,078
Total Costs	82,394	87,660	67,295
Gross Margin	77,000	76,498	62,667
Selling and Administrative	24,955	19,982	17,103
Income from Operations	52,045	56,516	45,564
Interest	7,078	8,840	6,606
Income before Provision for Income Taxes	44,967	47,676	38,958
Provision for Income Taxes	17,807	19,762	14,874
Income before Minority Interest	27,160	27,914	24,084
Minority Interest in Income of Subsidiary	482	670	251
Income before Effect of Accounting Change	26,678	27,244	23,833
Cumulative Effect of Accounting Change, net of tax Benefit of $883	—	—	(1,367)
Net Income	$ 26,678	$ 27,244	$ 22,466
Earnings Per Share:			
Basic			
Income before cumulative effect of accounting change	$ 2.18	$ 2.21	$ 1.80
Cumulative effect of accounting change, net of tax	—	—	(0.10)
Net Income	$ 2.18	$ 2.21	$ 1.70
Diluted			
Income before cumulative effect of accounting change	$ 2.14	$ 2.19	$ 1.78
Cumulative effect of accounting change, net of tax	—	—	(0.10)
Net Income	$ 2.14	$ 2.19	$ 1.68
Shares Used in Per Share Calculation:			
Basic	12,232	12,334	13,235
Diluted	12,495	12,428	13,383

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

MCGRATH RENTCORP

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2001	2000
	(In thousands)	
ASSETS		
Cash	$ 4	$ 643
Accounts Receivable, less allowance for doubtful accounts of $1,250 in 2001 and $650 in 2000	36,896	45,687
Rental Equipment, at cost:		
Relocatable Modular Offices	281,203	261,081
Electronic Test Instruments	95,419	92,404
	376,622	353,485
Less Accumulated Depreciation	(121,100)	(106,083)
Rental Equipment, net	255,522	247,402
Land, at cost	19,303	19,303
Buildings, Land Improvements, Equipment and Furniture, at cost, less accumulated depreciation of $8,465 in 2001 and $6,815 in 2000	32,479	33,233
Prepaid Expenses and Other Assets	10,680	10,978
Total Assets	$ 354,884	$ 357,246
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Notes Payable	$ 104,140	$ 126,876
Accounts Payable and Accrued Liabilities	30,745	37,012
Deferred Income	18,473	19,241
Minority Interest in Subsidiary	2,946	3,506
Deferred Income Taxes	66,985	61,653
Total Liabilities	223,289	248,288
Shareholders' Equity:		
Common Stock, no par value —		
Authorized — 40,000 shares		
Issued and Outstanding — 12,335 shares in 2001 and 12,125 shares in 2000	12,794	8,971
Retained Earnings	118,801	99,987
Total Shareholders' Equity	131,595	108,958
Total Liabilities and Shareholders' Equity	$ 354,884	$ 357,246

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

MCGRATH RENTCORP

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock		Retained Earnings	Total Shareholders' Equity
	Shares	Amount		
	(In thousands, except per share amounts)			
Balance at December 31, 1998	13,970	$ 8,138	$ 97,256	$105,394
Net Income	—	—	22,466	22,466
Repurchase of Common Stock	(1,550)	(1,381)	(26,831)	(28,212)
Noncash Compensation	35	1,343	—	1,343
Exercise of Stock Options	91	655	—	655
Dividends Declared of $0.48 Per Share	—	—	(6,243)	(6,243)
Balance at December 31, 1999	12,546	8,755	86,648	95,403
Net Income	—	—	27,244	27,244
Repurchase of Common Stock	(451)	(327)	(7,037)	(7,364)
Noncash Compensation	20	454	—	454
Exercise of Stock Options	10	89	—	89
Dividends Declared of $0.56 Per Share	—	—	(6,868)	(6,868)
Balance at December 31, 2000	12,125	8,971	99,987	108,958
Net Income	—	—	26,678	26,678
Issuance of Common Stock to Increase Interest In Subsidiary	85	2,061	—	2,061
Noncash Compensation	6	551	—	551
Exercise of Stock Options	119	1,211	—	1,211
Dividends Declared of $0.64 Per Share	—	—	(7,864)	(7,864)
Balance at December 31, 2001	12,335	$12,794	$118,801	$131,595

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

MCGRATH RENTCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2001	2000	1999
	(In thousands)		
Cash Flow from Operating Activities:			
Net Income	$ 26,678	$ 27,244	$ 22,466
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	29,632	25,716	21,474
Impairment Loss Related to Rental Equipment	—	1,689	—
Cumulative Effect of Accounting Change, net of tax	—	—	1,367
Provision for Losses on Accounts Receivable	600	—	—
Noncash Compensation	551	454	1,343
Gain on Sale of Rental Equipment	(6,528)	(6,755)	(5,971)
Change In:			
Accounts Receivable	8,191	(20,592)	(3,284)
Prepaid Expenses and Other Assets	1,315	(6,990)	1,579
Accounts Payable and Accrued Liabilities	(6,065)	12,678	1,990
Deferred Income	(768)	9,730	1,687
Deferred Income Taxes	5,332	6,792	10,584
Net Cash Provided by Operating Activities	58,938	49,966	53,235
Cash Flow from Investing Activities:			
Purchase of Rental Equipment	(46,877)	(67,389)	(47,310)
Purchase of Land, Buildings, Land Improvements, Equipment and Furniture	(1,608)	(3,430)	(2,253)
Proceeds from Sale of Rental Equipment	18,015	18,380	16,352
Net Cash Used in Investing Activities	(30,470)	(52,439)	(33,211)
Cash Flow from Financing Activities:			
Net Borrowings (Repayments) under Bank Lines of Credit	(22,736)	16,576	13,300
Net Proceeds from the Exercise of Stock Options	1,211	89	655
Repurchase of Common Stock	—	(7,364)	(28,212)
Payment of Dividends	(7,582)	(6,675)	(6,134)
Net Cash Provided by (Used in) Financing Activities	(29,107)	2,626	(20,391)
Net Increase (Decrease) in Cash	(639)	153	(367)
Cash Balance, Beginning of Period	643	490	857
Cash Balance, End of Period	$ 4	$ 643	$ 490
Interest Paid During the Period	$ 7,629	$ 8,504	$ 6,473
Income Taxes Paid During the Period	$ 12,475	$ 12,970	$ 4,290
Dividends Declared but not yet Paid	$ 1,981	$ 1,699	$ 1,506

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

MCGRATH RENTCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Business

On December 20, 2001, McGrath RentCorp (the "Company") announced that a definitive agreement (the "Merger Agreement") providing for the merger of the Company with and into Tyco Acquisition Corp. 33, a direct, wholly-owned subsidiary of Tyco International Ltd. ("Tyco"), had been executed by the Company and the Tyco subsidiary. The Merger Agreement provides that the consideration to be paid by Tyco will be in the form of cash and Tyco common shares. If the Company's shareholders in total elect to receive more cash or more Tyco shares than these limits allow, the Company's shareholders that elect the consideration that exceeds the relevant limit will receive a combination of cash and Tyco shares. The Company's shareholders are to have the right to elect what percentage of their consideration is to be paid in cash and what percentage is to be paid in Tyco common shares, subject to the limitation that no less than 50% and no more than 75% of the aggregate consideration to be paid to all shareholders be in the form of Tyco common shares. Subject to this limitation, the Company's shareholders electing to receive cash will receive $38.00 for each share of the Company's common stock; shareholders electing to receive Tyco common shares will receive a fraction (the "Exchange Ratio") of a Tyco common share, determined by dividing $38.00 by the average trading price of Tyco's common shares for the five trading days ending on the fourth trading day prior to the date of the Company's shareholders meeting to consider approval of the Merger. The Merger Agreement provides, however, that Tyco may terminate the agreement if its average share price is less than $45.00 at the time of the calculation of the Exchange Ratio, unless the Company agrees to a fixed Exchange Ratio of 0.8444 Tyco common shares for each share of the Company's stock, or the parties agree to some other Exchange Ratio. The proposed merger transaction is discussed in, and a copy of the Merger Agreement is attached to, the Company's Form 8-K filed with the SEC on December 26, 2001. In 2001, the Company incurred merger-related costs of $1,893,000, which are included in selling and administrative expenses.

The Company is a California corporation organized in 1979. The Company is comprised of three business segments: "Mobile Modular Management Corporation" ("MMMC"), its modular building rental division, "RenTelco," its electronic test equipment rental division, and "Enviroplex," its majority-owned subsidiary classroom manufacturing business. The Company's corporate offices are located in Livermore, California. In addition, branch operations for both rental divisions are conducted from this facility.

MMMC rents and sells modular buildings and accessories to fulfill customers' temporary and permanent space needs in California and Texas. These units are used as temporary offices adjacent to existing facilities, and are used as classrooms, sales offices, construction field offices, health care clinics, child care facilities and for a variety of other purposes. MMMC purchases the modulars from various manufacturers who build them to MMMC's design specifications. MMMC operates from two branch offices in California and one in Texas. Although MMMC's primary emphasis is on rentals, sales of modulars routinely occur and can fluctuate quarter to quarter and year to year depending on customer demands and requirements. Rentals and sales to school districts by MMMC represent a significant portion of MMMC's total revenues. The educational market is the largest segment of the modular business. Within the educational market, rentals and sales to California public school districts by MMMC represent a significant portion of MMMC's total revenues.

RenTelco rents and sells electronic test equipment nationally from two locations. The Plano, Texas location houses the Company's communications and fiber optic test equipment inventory, calibration laboratory and eastern U.S. sales engineer and operations staffs. The Livermore, California location houses the Company's general-purpose test equipment inventory, a calibration laboratory and western U.S. sales engineer and operations staffs. Communications and fiber optic test equipment is used by field technicians, engineers and installer contractors in evaluating voice, data and multimedia communications networks, installing optical fiber cabling and in the development of switch, network and wireless products. This test equipment is rented primarily to network systems companies, electrical contractors, local & long distance carriers and manufacturers of communications transmission equipment. RenTelco purchases communications test equipment from over 40 different manufacturers domestically and abroad. Engineers, scientists and technicians use general-

purpose test equipment in evaluating the performance of their own electrical and electronic equipment, developing products, controlling manufacturing processes and in field service applications. These instruments are rented primarily to electronics, industrial, research and aerospace companies. The majority of general-purpose equipment is manufactured by Agilent (formerly Hewlett Packard), Tektronix and Acterna.

Until June 30, 2001 McGrath RentCorp owned 73% of Enviroplex, a California corporation organized in 1991. In July 2001, the Company acquired an additional 8% interest in Enviroplex for 85,366 shares of Company stock. The Company now owns 81% of Enviroplex. 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. Enviroplex conducts its sales and manufacturing operations from its facility located in Stockton, California.

The rental and sale of modulars to California 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 business from this market segment comprised approximately 34%, 35% and 34% of the Company's consolidated rental and sales revenues for 2001, 2000, and 1999, respectively.

Note 2. Significant Accounting Policies

Principles of Consolidation

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

Revenues

Most of the Company's leases with customers are accounted for as operating leases in accordance with Statement of Financial Standards ("SFAS") No. 13, and as such, rental revenue is recognized on a straight-line basis over the term of the lease. Effective January 1, 1999, rental revenue is recognized ratably over the month on a daily basis. Rental billings for periods extending beyond the month end are recorded as deferred income. In prior years, only rental billings extending beyond a one-month billing period were recorded as deferred income (i.e. partial month billings for days beyond month end were not deferred). The new method of recognizing revenue was adopted after the Company undertook a review of its revenue recognition policies after the Securities and Exchange Commission issued its Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition." The effect is reported as a change in accounting method in accordance with Accounting Principles Board Opinion ("APB") No. 20, "Accounting Changes." In 1999, the cumulative effect of changing to a new method of accounting effective January 1, 1999 was to decrease net income by $1,367,000 (net of taxes of $883,000) or $0.10 per diluted share.

Rental related services revenue is primarily associated with relocatable modular office leases, consists of billings to customers for delivery, installation, modifications, skirting, additional site related work, and return delivery and dismantle, and are an integral part of the negotiated lease agreement with the customer. Revenue related to these services is recognized on a straight-line basis over the term of the lease in accordance with SFAS No. 13.

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

MCGRATH RENTCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Depreciation and Maintenance

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

Rental equipment:	
Relocatable modular offices and accessories	3 to 18 years, 0% to 18% residual value
Electronic test instruments and accessories	5 to 8 years, no residual value
Buildings, land improvements, equipment and furniture	5 to 50 years, no residual value

Maintenance and repairs are expensed as incurred.

Impairment

The Company continually evaluates the carrying value of rental equipment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets". Under SFAS 121, rental equipment is reviewed for impairment whenever events or circumstances have occurred that would indicate the carrying amount may not be fully recoverable. 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. 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. In 2000, an impairment charge primarily related to modular equipment identified as beyond economic repair of $1,927,000, including disposal costs, was recorded in the Company's consolidated statements of income in other direct costs of rental operations.

Costs of Rental Related Services

Costs of rental related services are primarily associated with relocatable modular office leases, consist of costs for services to be provided under the negotiated lease agreement for delivery, installation, modifications, skirting, additional site related work, and return delivery and dismantle. Costs related to these services are recognized on a straight-line basis over the term of the lease in accordance with SFAS No. 13.

Other Direct Costs of Rental Operations

Other direct costs of rental operations primarily relate to costs associated with modular operations and include equipment supplies and repairs, direct labor, property and liability insurance, property taxes, and business and license fees. These costs also include impairment losses and the amortization of certain lease costs included in the negotiated rental rate with the customer.

Warranty Service Costs

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

MCGRATH RENTCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Income Taxes

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

Fair Value of Financial Instruments

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

Use of Estimates

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

Earnings Per Share

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, excluding the dilutive effects of stock options and other potentially dilutive securities. Diluted EPS is computed as net income divided by the weighted average number of shares outstanding of common stock and common stock equivalents for the period. Common stock equivalents result from dilutive stock options computed using the treasury stock method with the average share price for the reported period. The weighted average number of dilutive options outstanding at December 31, 2001, 2000 and 1999 were 263,054, 94,247 and 147,789, respectively.

Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income," establishes standards to measure all changes in equity that result from transactions and other economic events other than transactions with shareholders. Comprehensive income is the total of net income and all other non-shareholder changes in equity. Other than net income, the Company has no comprehensive income.

Accounting for Derivatives

On January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138, which establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Company does not own any derivative instruments, and as such, the implementation of this statement did not have a material impact on the Company's financial position or result of operations.

Business Combinations, Goodwill and Other Intangible Assets

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. SFAS No. 142 establishes new guidelines for accounting for goodwill and other intangible assets. In accordance with SFAS No. 142, goodwill associated with acquisitions consummated after June 30, 2001 is not amortized. The Company implemented the provisions of SFAS No. 141 and 142 in 2001.

MCGRATH RENTCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

New Accounting Pronouncements

In June 2001, the FASB approved for issuance SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred and that the associated asset retirement costs be capitalized as part of the carrying value of the related long-lived asset. SFAS No. 143 will be effective January 1, 2003 for the Company. Management does not expect this standard to have a material impact on the Company's consolidated financial position or results of operations.

In August 2001, the FASB approved for issuance SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 broadens the presentation of discontinued operations to include more transactions and eliminates the need to accrue for future operating losses. Additionally, SFAS No. 144 prohibits the retroactive classification of assets as held for sale and requires revisions to the depreciable lives of long-lived assets to be abandoned. SFAS No. 144 will be effective January 1, 2002 for the Company. Management is does not expect this standard to have a material impact on the Company's consolidated financial position or results of operations.

Reclassifications

Certain prior period amounts have been reclassified to conform to current year presentation.

Note 3. Concentration of Credit Risk

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

Note 4. Sales Type Lease Receivables

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

	December 31,	
	2001	2000
	(In thousands)	
Gross minimum lease payments receivable	$4,910	$ 7,063
Less — unearned interest	(894)	(1,233)
Net investment in sales type lease receivables	$4,016	$ 5,830

MCGRATH RENTCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As of December 31, 2001, the future minimum lease payments to be received in 2002 and thereafter are as follows:

Year Ended December 31,	(In thousands)
2002	$3,144
2003	1,130
2004	397
2005	173
2006	52
2007 and thereafter	14
Total minimum future lease payments	$4,910

Note 5. Notes Payable

On July 31, 1998, the Company completed a private placement of $40,000,000 of 6.44% Senior Notes due in 2005. Interest on the notes is due semi-annually in arrears and the principal is due in 5 equal installments commencing on July 15, 2001. The outstanding balance at December 31, 2001 was $32,000,000. Among other restrictions, the agreement requires (i) the Company to maintain a minimum net worth of $80,000,000 plus 25% of all net income generated subsequent to June 30, 1998, less an aggregate amount not to exceed $15,000,000 paid by the Company to repurchase its common stock after June 30, 1998, (restricted equity at December 31, 2001 was $87,335,000), (ii) a fixed coverage charge of not less than 2.0 to 1.0, (iii) a rolling fixed charges coverage ratio of not less than 1.5 to 1.0, and (iv) senior debt not to exceed 275% of consolidated net worth and consolidated total debt not to exceed 300% of consolidated net worth. As of December 31, 2001, the Company was in compliance with all covenants related to these notes.

The Company has an unsecured line of credit agreement (the “Agreement”) expiring June 30, 2004 that permits it to borrow up to $120,000,000, of which $69,500,000 was outstanding as of December 31, 2001. The Agreement requires the Company to pay interest at prime or, at the Company’s election, at other rate options available under the Agreement. In addition, the Company pays a commitment fee on the daily average unused portion of the available line. Among other restrictions, the Agreement requires (i) the Company to maintain shareholders’ equity of not less than $100,000,000 plus 50% of all net income generated subsequent to June 30, 2001 plus 90% of any new stock issuance proceeds (restricted equity at December 31, 2001 was $106,214,000), (ii) a debt-to-equity ratio (excluding deferred income taxes) of not more than 3 to 1, (iii) interest coverage (income from operations compared to interest expense) of not less than 2 to 1 and (iv) debt service coverage (earnings before interest, taxes, depreciation and amortization compared to the following year’s principal payments plus the most recent twelve months interest expense) of not less than 1.15 to 1. As of December 31, 2001, the Company was in compliance with all covenants related to this Agreement.

In addition to the $120,000,000 unsecured line of credit, the Company has a $5,000,000 revolving line of credit (at prime rate) related to its cash management services of which $2,640,000 was outstanding as of December 31, 2001. This line of credit related to its cash management services will expire on June 30, 2004.

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

	Year Ended December 31,	
	2001	2000
	(Dollar amounts in thousands)	
Maximum amount outstanding	$93,373	$88,090
Average amount outstanding	$81,595	$79,861
Weighted average interest rate	5.55%	7.57%
Effective interest rate at end of period	3.20%	7.62%
Prime interest rate at end of period	4.75%	9.50%

Note 6. Income Taxes

The provision for income taxes is comprised of the following:

	Current	Deferred	Total
		(In thousands)	
Year Ended December 31,			
2001			
Federal	$10,090	$4,097	$14,187
State	2,385	1,235	3,620
	$12,475	$5,332	$17,807
2000			
Federal	$10,644	$3,649	$14,293
State	2,326	3,143	5,469
	$12,970	$6,792	$19,762
1999			
Federal	$ 3,067	$8,972	$12,039
State	1,223	729	1,952
	$ 4,290	$9,701	$13,991

In 1999, the total provision for income taxes includes a provision on income before taxes of $14,874,000 and a tax benefit of $883,000 included with the cumulative effect of accounting change on the consolidated statements of income.

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

	Year Ended December 31,		
	2001	2000	1999
Federal statutory rate	35.00%	35.00%	35.00%
State taxes, net of federal benefit	5.23	7.46	3.46
Other	(0.63)	(1.01)	(0.35)
	39.60%	41.45%	38.11%

MCGRATH RENTCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	Year Ended December 31,	
	2001	2000
	(In thousands)	
Excess of tax over book depreciation	$75,148	$67,697
State income taxes	(5,122)	(4,699)
Accrued liabilities not currently deductible	(1,240)	(948)
Revenue deferred for financial reporting purposes	(2,462)	(2,161)
Other, net	661	1,764
	$66,985	$61,653

Note 7. Common Stock and Stock Options

In July 2001, the Company entered into a Stock Exchange Agreement with the minority shareholders of Enviroplex to increase its ownership in Enviroplex from 73% to 81%. The Company exchanged 85,366 shares of its common stock for 8% of Enviroplex. The transaction was recorded using purchase accounting and was valued at $2,061,000 based on the Company's closing price of $24.14 per share on June 29, 2001. Prior to the transaction, the cost basis of Enviroplex's assets and liabilities approximated the fair value of those assets and liabilities. The excess paid over fair value of $1,065,000 was allocated to intangible assets of $88,000 and goodwill of $977,000. In accordance with SFAS 142, goodwill is not being amortized and will be evaluated for impairment annually. The Company does not have any other goodwill or intangible assets.

The Company adopted a 1998 Stock Option Plan (the "1998 Plan"), effective March 9, 1998, under which 2,000,000 shares are reserved for the grant of options to purchase common stock to directors, officers, key employees and advisors of the Company. The plan provides for the award of options at a price not less than the fair market value of the stock as determined by the Board of Directors on the date the options are granted. Under the 1998 Plan, 629,000 options have been granted with exercise prices ranging from $15.63 to $25.55. As of December 31, 2001, options have been exercised for the purchase of 23,325 shares, options for 79,000 shares have been terminated, and options for 526,675 remain outstanding. Most of these options vest over 5 years and expire 10 years after grant. To date, no options have been issued to any of the Company's advisors. As of December 31, 2001, 1,450,000 options remained available to issue under the 1998 plan.

The Company adopted a 1987 Incentive Stock Option Plan (the "1987 Plan"), effective December 14, 1987, under which options to purchase common stock may be granted to officers and key employees of the Company. The plan provides for the award of options at a price not less than the fair market value of the stock as determined by the Board of Directors on the date the options are granted. As of December 31, 2001, options for 101,818 with an exercise price of $10.75 per share remain outstanding. The options vest over 9.3 years and expire 10 years after grant. The 1987 Plan expired in December 1997 and no further options can be issued under this plan.

MCGRATH RENTCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Option activity and options exercisable including weighted average exercise price for the three years ended December 31, 2001 are as follows:

	Year Ended December 31,					
	2001		2000		1999	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding at January 1	659,610	$15.87	516,522	$15.53	541,122	$13.83
Options granted during the year	96,500	19.55	187,000	16.94	103,500	18.25
Options exercised during the year	(119,117)	10.17	(9,948)	8.93	(91,250)	7.18
Options terminated during the year	(8,500)	20.25	(33,964)	18.76	(36,850)	18.74
Options outstanding at December 31	628,493	17.64	659,610	15.87	516,522	15.53
Options exercisable at December 31	234,458	17.67	246,530	14.11	172,407	13.22

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, 2001:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding at 12/31/01	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at 12/31/01	Weighted Average Exercise Price
$10.75	101,818	4.50	$10.75	48,358	$10.75
15.63	20,000	8.33	15.63	6,000	15.63
15.94	12,000	8.92	15.94	2,400	15.94
17.00	142,500	8.83	17.00	28,500	17.00
18.25	97,675	7.92	18.25	37,075	18.25
19.38	12,500	8.75	19.38	3,125	19.38
19.75	75,000	9.17	19.75	—	19.75
20.25	10,000	6.50	20.25	8,500	20.25
20.81	130,000	6.25	20.81	94,000	20.81
21.69	10,000	6.67	21.69	6,500	21.69
25.10	5,000	9.67	25.10	—	25.10
25.55	12,000	9.92	25.55	—	25.55
10.75 - 25.55	628,493	7.44	17.64	234,458	17.67

SFAS 123 “Accounting for Stock-Based Compensation” became effective for the Company in 1996. As allowed by SFAS 123, the Company has elected to continue to follow APB 25 “Accounting for Stock Issued to Employees” in accounting for its stock option plans. Under APB 25, the Company does not recognize compensation expense on the issuance of stock options because the option terms are fixed and the exercise price equals the market price of the underlying stock on the grant date. However, APB 25 requires recognition of noncash compensation when the Company repurchases stock acquired by an employee through the exercise of an incentive stock option. During 1999, the Company repurchased 80,000 shares of stock at $18.00 per share from an employee who had acquired the stock at $6.94 per share through the exercise of a stock option, resulting in the recognition of noncash compensation expense of $885,000. The noncash compensation of

$885,000 is included in the Company's consolidated statements of income in selling and administrative expense in 1999.

In accordance with SFAS 123, the fair value of each option grant is estimated at the date of grant using the Black-Scholes option pricing model. The assumptions used in the 2001, 2000 and 1999 grants are as follows:

	Year Ended December 31,		
	2001	2000	1999
Risk-free interest rates	5.0%	5.9%	6.3%
Expected dividend yields	1.7%	2.9%	2.7%
Expected volatility	36.0%	26.5%	27.8%
Expected option life (in years)	7.5	7.5	7.5

The fair value of the options granted are $1,949,000, $2,115,000 and $1,888,000 during the year ended December 31, 2001, 2000 and 1999, respectively. The weighted average fair value of grants are $8.31, $5.03 and $5.93 during the year ended 2001, 2000 and 1999, respectively.

The following pro forma net income and earnings per share data are computed for the years ended December 31, 2001, 2000 and 1999 as if compensation cost for the stock options granted subsequent to 1995 had been determined consistent with SFAS 123:

	Year Ended December 31,		
	2001	2000	1999
	(In thousands, except per share amounts)		
Net Income	$26,678	$27,244	$22,466
Pro Forma net income	26,094	26,826	22,043
Earnings Per Share			
Basic	2.18	2.21	1.70
Diluted	2.14	2.19	1.68
Pro Forma Earnings Per Share			
Basic	2.13	2.17	1.67
Diluted	2.09	2.16	1.65

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 the Company to a trust for the benefit of eligible employees. The amount of the contribution is determined annually by the Board of Directors. A cash contribution of $400,000 was approved for 2001, $800,000 for 2000 and $750,000 for 1999.

In 1991, the Board of Directors adopted a Long-Term Stock Bonus Plan (the "1990 LTB Plan") under which shares of common stock may be granted to officers and key employees. The stock bonuses granted under the 1990 LTB Plan are evidenced by written Stock Bonus Agreements covering specified performance periods. The 1990 LTB Plan provides for the grant of stock bonuses upon achievement of certain financial goals during a specified period. Stock bonuses earned under the 1990 LTB Plan vest over four years from the grant date contingent on the employee's continued employment with the Company. As of December 31, 2001, 210,243 shares of common stock have been granted, of which 184,731 shares are vested. The 1990 LTB Plan expired in December 1999 and no further grants of common stock can occur under the 1990 LTB Plan. In 2000, the Board of Directors adopted a Long-Term Stock Bonus Plan (the "2000 LTB Plan") under which 400,000 shares of common stock are reserved for grant to officers and key employees. The terms of the 2000 LTB Plan are the same as the 1990 Plan described above. Estimated future grants of 40,521 shares of

common stock are authorized by the Board of Directors to be issued under the 2000 LTB Plan in the event the Company reaches its highest level of achievement. As of December 31, 2001, no shares of common stock had yet been granted or vested under the 2000 LTB Plan. Compensation expense for 2001, 2000 and 1999 under the plans was $551,000, $454,000 and $458,000, respectively, and is based on a combination of the anticipated number of shares to be granted, the amount of vested shares previously issued and fluctuations in market price of the Company's common stock. As of December 31, 2001, 2000 and 1999, the unvested shares were 25,512, 40,409, and 61,346, respectively, with the related weighted average grant-date fair value of these unvested shares of $23.13, $20.45 and $20.23 per share, respectively.

From time to time, the Board of Directors has authorized the repurchase of shares of the Company's outstanding common stock. These purchases are to be made in the over-the-counter market and/or through large block transactions at such repurchase price as the officers shall deem appropriate and desirable on behalf of the Company. All shares repurchased by the Company are to be canceled and returned to the status of authorized but unissued shares of common stock. In 1999, the Company repurchased 1,549,526 shares of common stock for an aggregate repurchase price of $28,212,000 or an average price of $18.21 per share. In 2000, the Company repurchased 450,942 shares of common stock for an aggregate repurchase price of $7,364,000 or an average price of $16.33 per share. There were no repurchases of common stock during 2001. As of December 31, 2001, 805,800 shares remain authorized for repurchase.

Note 8. Business Segments

The Company defines its business segments based on the nature of operations for the purpose of reporting under SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company's three reportable segments are MMMC (Modulars), RenTelco (Electronics), and Enviroplex. The operations of each of these segments are described in Note 1. Organization and Business, and the accounting policies of the segments are described in Note 2. Significant Accounting Policies. As a separate corporate entity, Enviroplex revenues and expenses are separately maintained from Modulars and Electronics. Excluding interest expense, allocations of revenues and expenses not directly associated with Modulars or Electronics are generally allocated to these segments based on their pro-rata share of direct revenues. Interest expense is allocated between Modulars and Electronics based on their pro-rata share of average rental equipment, accounts receivable, deferred income and customer security deposits. The Company does not report total

MCGRATH RENTCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

assets by business segment. Summarized financial information for the years ended December 31, 2001, 2000 and 1999 for the Company's reportable segments is shown in the following table:

	Modulars	Electronics	Enviroplex	Consolidated
		(In thousands)		
Year Ended December 31,				
2001				
Rental Operations Revenues	$ 80,659	$37,890	$ —	$118,549
Sales and Other Revenues	16,402	9,450	14,993	40,845
Total Revenues	97,061	47,340	14,993	159,394
Depreciation on Rental Equipment	13,489	13,781	—	27,270
Interest Expense (Income)	5,321	2,135	(378)	7,078
Income before Merger Related Expenses and Provision for Income Taxes	28,216	15,963	2,681	46,860
Rental Equipment Acquisitions	30,323	16,554	—	46,877
Accounts Receivable, net (year-end)	22,969	8,957	4,970	36,896
Rental Equipment, at cost (year-end)	281,203	95,419	—	376,622
2000				
Rental Operations Revenues	$ 73,241	$38,875	$ —	$112,116
Sales and Other Revenues	24,254	10,796	16,992	52,042
Total Revenues	97,495	49,671	16,992	164,158
Depreciation on Rental Equipment	12,546	11,304	—	23,850
Interest Expense (Income)	6,725	2,459	(344)	8,840
Income before Provision for Income Taxes	23,565	20,454	3,657	47,676
Rental Equipment Acquisitions	36,017	31,372	—	67,389
Accounts Receivable, net (year-end)	28,816	12,902	3,969	45,687
Rental Equipment, at cost (year-end)	261,081	92,404	—	353,485
1999				
Rental Operations Revenues	$ 64,164	$27,633	$ —	$ 91,797
Sales and Other Revenues	16,600	10,415	11,150	38,165
Total Revenues	80,764	38,048	11,150	129,962
Depreciation on Rental Equipment	10,811	8,969	—	19,780
Interest Expense (Income)	5,097	1,724	(215)	6,606
Income before Provision for Income Taxes	23,838	13,641	1,479	38,958
Rental Equipment Acquisitions	30,443	16,867	—	47,310
Accounts Receivable, net (year-end)	11,334	9,691	4,070	25,095
Rental Equipment, at cost (year-end)	238,449	72,832	—	311,281

MCGRATH RENTCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 9. Quarterly Financial Information (unaudited)

Quarterly financial information for each of the two years ended December 31, 2001 is summarized below:

	2001				
	First	Second	Third	Fourth	Year
	(In thousands, except per share amounts)				
Operations Data					
Rental revenues	$ 26,107	$ 25,768	$ 25,100	$ 23,747	$100,722
Total revenues	36,282	41,737	42,406	38,969	159,394
Gross margin	18,964	20,542	19,453	18,041	77,000
Income from operations	13,167	14,863	13,854	10,161	52,045
Income before income taxes	11,023	13,010	12,106	8,828	44,967
Net income	6,635	7,615	7,164	5,264	26,678
Earnings per share:					
Basic	$ 0.55	$ 0.63	$ 0.58	$ 0.43	$ 2.18
Diluted	$ 0.54	$ 0.62	$ 0.58	$ 0.42	$ 2.14
Dividends declared per share	$ 0.16	$ 0.16	$ 0.16	$ 0.16	$ 0.64
Shares used in per share calculation:					
Basic	12,147	12,178	12,280	12,322	12,232
Diluted	12,285	12,378	12,456	12,615	12,495
Balance Sheet Data					
Rental equipment net	$253,196	$260,482	$259,956	$255,522	$255,522
Total assets	353,889	364,357	371,436	354,884	354,884
Notes payable	121,300	122,500	116,100	104,140	104,140
Shareholders' equity	113,913	119,911	127,351	131,595	131,595

MCGRATH RENTCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	2000				
	First	Second	Third	Fourth	Year
Operations Data					
Rental revenues	$ 21,381	$ 22,847	$ 24,876	$ 25,827	$ 94,931
Total revenues	31,643	37,369	54,643	40,503	164,158
Gross margin	15,953	17,679	23,678	19,188	76,498
Income from operations	11,258	12,892	18,138	14,228	56,516
Income before income taxes	9,314	10,732	15,777	11,853	47,676
Net income	5,703	6,389	9,044	6,108	27,244
Earnings per share:					
Basic	$ 0.46	$ 0.52	$ 0.73	$ 0.50	$ 2.21
Diluted	$ 0.45	$ 0.52	$ 0.73	$ 0.50	$ 2.19
Dividends declared per share	$ 0.14	$ 0.14	$ 0.14	$ 0.14	$ 0.56
Shares used in per share calculation:					
Basic	12,500	12,305	12,308	12,223	12,334
Diluted	12,593	12,393	12,402	12,335	12,428
Balance Sheet Data					
Rental equipment net	$222,695	$234,832	$243,270	$247,402	$247,402
Total assets	301,823	321,955	345,371	357,246	357,246
Notes payable	114,000	125,800	127,400	126,876	126,876
Shareholders' equity	95,024	99,733	107,067	108,958	108,958

Item 9. ***Changes in and Disagreements With Accountants on Accounting and Financial Disclosure***

Not applicable.

PART III

Item 10. ***Directors and Executive Officers of the Registrant***

Directors

Name	Age	Principal Occupation	Director Since
William J. Dawson	47	Investor, retired executive	1998
Robert C. Hood	61	Investor, retired executive	1999
Joan M. McGrath	65	Businesswoman	1982
Robert P. McGrath	68	Chairman of the Board and Chief Executive Officer of the Company	1979
Delight Saxton	55	Senior Vice President of the Company	1982
Ronald H. Zech	58	Chairman of the Board, President and Chief Executive Officer of GATX Corporation	1989

William J. Dawson was elected a director of the Company in 1998, and he serves on its Audit and Executive Compensation Committees. From 1993 through 1998, Mr. Dawson was a Managing Director of Volpe Brown Whelan, LLC, an investment banking firm, where he was responsible for corporate finance activities in the healthcare industry. From 1998 through 2001, Mr. Dawson was Corporate Senior Vice President, Business Development of McKesson HBOC, Inc., a large healthcare services company, with responsibility for mergers & acquisitions and venture capital investments. Mr. Dawson is now retired.

Robert C. Hood was elected a director of the Company in 1999. Mr. Hood serves on the Board's Audit and Executive Compensation Committees. From 1996 to 1999, Mr. Hood was Executive Vice President and Chief Financial and Administrative Officer of Excite, Inc., an Internet portal company. Mr. Hood is now retired.

Joan M. McGrath joined the Company in 1980 and has been a director since 1982. Ms. McGrath served as a Vice President of the Company from 1982 through 1994, at which time she resigned that position. She continues to be an employee of the Company with responsibilities in training sales, supervisory and management personnel and general management.

Robert P. McGrath is the founder of the Company. He has been a director and its Chief Executive Officer since the Company's formation in 1979, and its Chairman of the Board since 1988. He also served as the Company's President through 1994 and as its Chief Financial Officer through 1993. He is a member of the Executive Compensation Committee of the Company's Board of Directors.

Delight Saxton has been with the Company since its inception in 1979, and a director since 1982. She served as Secretary of the Company from 1982 to 1999, its Treasurer from 1982 to 1989, its Vice President of Administration from 1989 to 1997, and its Chief Financial Officer from 1993 to 1999. She has been a Senior Vice President of the Company since 1997. She is responsible for facility development and general management.

Ronald H. Zech was elected a director of the Company in 1989, and he serves on its Audit and Executive Compensation Committees. In 1994, Mr. Zech was elected President and Chief Operating Officer of GATX Corporation, a New York Stock Exchange listed company. In 1995, he was elected Chief Executive Officer of that corporation, and in 1996 was elected its Chairman of the Board. GATX provides specialized finance and leasing solutions for customers and partners worldwide. Mr. Zech also serves on the Board of Directors of The PMI Group, Inc., a New York Stock Exchange listed company engaged in the business of providing private mortgage insurance.

Executive Officers

Name	Age	Position Held with the Company
Robert P. McGrath	68	Chairman of the Board and Chief Executive Officer
Dennis C. Kakures	45	President and Chief Operating Officer
Delight Saxton	55	Senior Vice President
Thomas J. Sauer	45	Vice President and Chief Financial Officer
Scott A. Alexander	41	Vice President
Randle F. Rose	44	Vice President of Administration and Secretary
Laura C. Cissell	37	Vice President

Robert P. McGrath and Delight Saxton are also directors of the Company and descriptions of them appear under *"Directors"* above.

Dennis C. Kakures joined the Company in 1982 as Sales and Operations Manager of the Company's Northern California office. He became a Vice President of the Company in 1987, Chief Operating Officer in 1989, Executive Vice President in 1993, and President in 1995.

Thomas J. Sauer joined the Company in 1983 as its Accounting Manager, served as its Controller from 1987 to 1999, became Treasurer in 1989, a Vice President in 1995, and Chief Financial Officer in 1999. Mr. Sauer is responsible for accounting, financial reporting, corporate taxes, and the Company's relationships with its bankers and auditors.

Scott A. Alexander joined the Company in 1982 as a sales representative, became a Branch Manager in 1990, and a Vice President in 1997. Mr. Alexander is responsible for the operation of the Mobile Modular Division.

Randle F. Rose joined the Company in 1997 as its Vice President of Administration, and was elected Secretary of the Company in 1999. Mr. Rose is responsible for administration of human resources, risk management, MIS, real estate and facilities. For the three years prior to joining the Company, Mr. Rose was Vice President, Finance of Ardenbrook, Inc., a real estate company.

Laura C. Cissell joined the Company in 1988 as a marketing representative, became Marketing Manager in 1994, and received several promotions thereafter culminating in being elected a Vice President in 2000. Ms. Cissell is responsible for the operations of the RenTelco Division.

Each executive officer of the Company serves at the pleasure of the Board of Directors.

Compliance with § 16(a) of the Securities Exchange Act of 1934

The members of the Board of Directors, the executive officers of the Company, and persons who hold more than 10% of the Company's outstanding Common Stock are subject to the reporting requirements of § 16(a) of the Securities Exchange Act of 1934 which require them to file reports with respect to their ownership of the Company's Common Stock and their transactions in such Common Stock. Based upon (i) the copies of the § 16(a) reports the Company received from such persons during or with respect to 2001, and (ii) written representations received from all such persons that no annual Form 5 reports were required to be filed by them with respect to 2001, the Company believes that all reporting requirements under § 16(a) for 2001 were met in a timely manner by its directors, executive officers and greater than 10% shareholders.

Item 11. ***Executive Compensation***

Summary Compensation Table

The following table sets forth the compensation earned by the Company's Chief Executive Officer and the Company's other four most highly compensated executive officers for services rendered in all capacities to the Company for each of the last three years.

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation		All Other Compensation(3)
		Salary	Bonus	Awards(1)	Payout(2)	
Robert P. McGrath	2001	$430,000	$ 42,116	—	—	$ 5,469
Chairman and Chief	2000	424,000	295,663	—	—	12,437
Executive Officer	1999	385,000	111,024	—	—	12,579
Dennis C. Kakures	2001	320,000	31,197	$30,466	$268,250	5,469
President and Chief	2000	280,000	192,442	11,606	299,569	12,437
Operating Officer	1999	250,000	70,481	55,388	268,864	12,579
Thomas J. Sauer	2001	200,000	15,631	20,111	170,308	5,469
Vice President and	2000	185,000	101,973	7,576	191,912	12,437
Chief Financial Officer	1999	165,000	35,560	36,155	172,547	12,579
Scott A. Alexander	2001	157,000	85,778	—	—	5,469
Vice President	2000	145,000	51,500	—	—	12,437
	1999	133,000	22,085	—	—	12,579
Randle F. Rose	2001	112,500	28,047	—	—	4,601
Vice President of	2000	105,000	26,094	—	—	9,145
Administration, Secretary	1999	90,000	17,071	—	—	8,648

(1) Upon an award of stock bonus shares under the Company's Long Term Stock Bonus Plans, 20% of such shares are vested in the participant and the remaining 80% vest over the next four years contingent upon the participant remaining in the employ of the Company. See "Long Term Stock Bonus Plans" below. The figures shown in the column designated "Awards" are the values of the vested 20% shares of the Company's Common Stock earned by the executive officers under the Plan, calculated based on the market value of the Common Stock as of the end of the respective years. Dividends are paid to the officer with respect to shares earned by him, whether or not vested. As the unvested shares subsequently vest, their values are shown in the column designated "Payout."

(2) The figures shown in the column designated "Payout" are the values of the shares of the Company's Common Stock previously earned by the executive officers under the Company's Long-Term Stock Bonus Plans in a prior year which vested during the year shown. The values are calculated based on the market value of the Common Stock as of the end of the year in which it was originally earned.

(3) The figures shown in the column designated "All Other Compensation" represent the executive officer's share of the allocation of the Company's contribution to the Company's Employee Stock Ownership Plan for that year, and his share of any re-allocations of forfeited benefits during that year (see "Employee Stock Ownership Plan" below).

Employee Stock Ownership Plan

The Company's Employee Stock Ownership Plan ("ESOP") is intended to qualify as an employee stock ownership plan as defined in Section 4975(e)(7) of the Internal Revenue Code, and as a stock bonus plan under Section 401(a) of the Internal Revenue Code. The Company created a trust under the ESOP to hold plan assets, with Union Bank of California, N.A. acting as trustee. The Company may amend or terminate the ESOP at any time. In July 2001, the Company amended the ESOP to name Delight Saxton and Thomas J. Sauer as Trustees in place of Union Bank of California. All assets acquired by the trust are administered by a Plan Committee composed of Nanci Clifton, Edward Diaz, Brian Jensen, Thomas J. Sauer, Delight Saxton and Sandy Waggoner (all Company employees) for the exclusive benefit of employees who are participants in the ESOP and their designated beneficiaries.

Employees, who are 21 years or older, are entitled to participate in the ESOP when they have completed one year of service to the Company by June 30 of any year. As of December 31, 2001, 232 employees of the Company were participants in the ESOP. Allocations to each eligible participant's trust account are made each year from Company contributions, trust income or loss and re-allocations of forfeited ESOP benefits if the participant remains employed throughout the year and has worked a minimum number of hours or his employment has terminated due to death or retirement (as that term is defined in the ESOP) during that year. Allocations are made based upon each participant's compensation from the Company and time employed by the Company. As provided by law, a participant's interest in the ESOP becomes 20% vested after three years of service and will continue to vest at 20% per year thereafter until it is fully vested after the seventh year or upon death or total disability. The vesting schedule will be accelerated and the Company's contributions and ESOP allocations will be modified if the ESOP becomes a "top heavy plan" under federal tax laws.

In general, Company contributions are immediately tax deductible by the Company, but participants do not recognize income for tax purposes until distributions are made to them. The Company's Board of Directors determines the amount of Company contributions to the ESOP in cash, Company stock or other property each year with consideration for federal tax laws. The Company's Board of Directors has authorized a $400,000 cash contribution to the ESOP for the 2001 plan year, and the Company had made an aggregate of $3,050,000 cash contributions for the four years prior to that. Employees may not make contributions to the ESOP. Contributions in cash are used to purchase Company stock; however, other investments may be made and loans may be incurred by the ESOP for the purchase of Company stock.

The Plan Committee has determined that cash dividends paid by the Company on shares of the Company's Common Stock held by the ESOP shall be paid out to the participants. The Plan Committee has the right to revoke this decision at any time.

1987 Incentive Stock Option Plan

The Company has a 1987 Incentive Stock Option Plan (the "1987 Plan") under which options have been granted to key employees of the Company for the purchase of its Common Stock. Options granted under the 1987 Plan are intended to qualify as incentive stock options as that term is defined in Section 422 of the Internal Revenue Code of 1986, as amended. The 1987 Plan authorized the issuance of an aggregate of 2,000,000 shares of the Company's Common Stock under options. As of March 15, 2002, options for an aggregate of 852,000 shares had been granted to 28 key employees at exercise prices ranging between $3.06 and $10.75 per share; and of such options granted, options have been exercised for the purchase of 713,155 shares, options for 60,162 shares have been terminated, and options for 78,683 shares remain outstanding. The 1987 Plan is now terminated by its terms, and no further options will be granted under it; however, the options held by key employees for 78,683 shares still outstanding remain exercisable in accordance with the terms of those options. None of the Company's executive officers listed in the *"Summary Compensation Table"* above were granted, exercised or held an option during 2001 under the 1987 Plan.

1998 Stock Option Plan

The Company has a 1998 Stock Option Plan (the "1998 Plan") that authorizes the issuance of an aggregate of 2,000,000 shares of the Company's Common Stock under options to officers, key employees, directors and other persons who provide valuable services to the Company or its subsidiaries. Options granted under the 1998 Plan may be either incentive stock options as defined in Section 422 of the Internal Revenue Code of 1986, as amended, or options which are not incentive stock options ("non-qualified options"). As of March 15, 2002, options for an aggregate of 557,000 shares have been granted to 63 key employees at exercise prices ranging between $15.625 and $25.10 per share; and of such options granted, options have been exercised for the purchase of 121,120 shares, options for 69,000 shares have been terminated, and options for 366,880 shares remain outstanding. In addition to these options to key employees, options for an aggregate of 72,000 shares have been granted to outside directors of the Company at exercise prices ranging between $15.938 and $25.55 per share; and of such options granted, no options have been exercised, options for 10,000 shares have been terminated, and options for 62,000 remain outstanding. 1,450,000 shares remain available in the 1998

Plan for future option grants. In the event there is a "change in control" of the Company and the option holder is thereafter terminated within two years, the exercise rights under his or her option shall accelerate and become fully vested. With the exception of the information set forth below, none of the Company's executive officers listed in the *"Summary Compensation Table"* above exercised or held an option during 2001 under the 1998 Plan.

Name	Shares Acquired on Exercise	Value Realized	Number of Shares Underlying Unexercised Options at Year End Exercisable/Unexercisable	Value of Unexercised In-the-Money Options at Year End Exercisable/Unexercisable
Randle F. Rose	0	0	21,000/29,000	$373,770/$576,030

Long-Term Stock Bonus Plans

The Company's [1990] Long-Term Stock Bonus Plan reserved 400,000 shares of the Company's Common Stock for bonuses to be granted to officers and other key employees to provide incentives for high levels of performance and unusual efforts to improve the financial performance of the Company. This Plan terminated on December 31, 1999. In 2000, the Board of Directors and shareholders of the Company adopted the McGrath RentCorp 2000 Long-Term Stock Bonus Plan to replace the prior plan, and under which another 400,000 shares of the Company's Common Stock are reserved for bonuses to be granted to officers and key employees under conditions substantially the same as the prior plan. Stock Bonus Agreements have been entered into with Dennis C. Kakures, the Company's President and Chief Operating Officer, and Thomas J. Sauer, the Company's Vice President and Chief Financial Officer. To date, Messrs. Kakures and Sauer are the only persons who have received Stock Bonus Agreements. From 1990 through 2000, each Agreement provided for a stock bonus to the officer dependent upon the return on equity realized for the Company's shareholders over a three-year period, and starting with Agreements entered into in 1998, also dependent upon the growth in the Company's net income over that three-year period before taking into account any income derived from or expenses attributable to interest, income taxes, depreciation and/or amortization ("EBITDA"). Starting in 2001, each Agreement provided for a stock bonus to the officer dependent upon the growth in the Company's EBITDA after subtracting its debt. The Agreements also provide that the right to receive any stock bonus earned is subject to vesting over a four-year period contingent upon the officer remaining in the employ of the Company; however, in the event there is a "change in control" of the Company and the officer is thereafter terminated, his right to receive any stock bonus earned is accelerated and becomes fully vested. Messrs. Kakures and Sauer were awarded stock bonuses based upon the Company's performance over the three-year period ended December 31, 2001. The following table sets forth certain information with respect to the stock bonuses awarded. The "Values" in the table are calculated based on the market value of the shares of Common Stock as of December 31, 2001.

		As of 12/31/01		Will Vest at December 31,			
Name		Earned	Vested	2002	2003	2004	2005
Dennis C. Kakures	Shares	4,058	812	812	812	811	811
	Value	$152,256	$30,466	$30,466	$30,466	$30,429	$30,429
Thomas J. Sauer	Shares	2,678	536	536	536	535	535
	Value	$100,479	$20,111	$20,111	$20,111	$20,073	$20,073

The Company has entered into further Stock Bonus Agreements with both Mr. Kakures and Mr. Sauer, under which an estimate of 40,521 shares in additional stock bonuses could be awarded if the Company's performance goals over the successive three-year periods ending December 31, 2002 and 2003 are met. An estimated 359,479 shares remain available in the 2000 Plan for future bonus grants.

Compensation Committee Interlocks and Insider Participation in Compensation Decisions

No member of the Company's Executive Compensation Committee has a compensation committee interlocking relationship (as defined by the Securities and Exchange Commission). One member of the Committee, Robert P. McGrath, is an employee and officer of the Company, and he has participated in deliberations of the Committee concerning executive officer compensation.

Compensation of Directors

Each director who is not also an officer or employee of the Company was compensated for his services as a director at the rate of $16,000 per annum plus an additional fee of $750 per meeting for attendance at the meetings of the Board of Directors or one of its Committees (in the event a Committee meeting is held in conjunction with a Board meeting, only one $750 fee is paid to the director). Mr. Dawson and Mr. Zech each received $24,250 for his services as a director of the Company during 2001, and Mr. Hood received $25,000 for his services as a director during 2001. All directors, including those who are officers or employees of the Company, are reimbursed for expenses incurred in connection with attending Board or Committee meetings.

In addition to cash compensation, the three outside directors of the Company during 2001 (Messrs. Dawson, Hood and Zech) each received a non-qualified stock option under the Company's 1998 Stock Option Plan for the purchase of 4,000 shares of the Company's common stock at an exercise price of $25.55 per share.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management***

The following table sets forth certain information regarding each person who is known by the Company to be the beneficial owner of more than 5% of the outstanding Common Stock of the Company, each of the directors, the chief executive officer and the other four most highly compensated officers of the Company, and all officers and directors as a group as of March 15, 2002. The table is presented in accordance with the rules of the Securities and Exchange Commission and, accordingly, in several instances beneficial ownership of the same shares is attributed to more than one person.

	Beneficial Ownership	
Name	Number of Shares	Percentage of Outstanding
Robert P. *and* Joan M. McGrath(1)(2) McGrath RentCorp 5700 Las Positas Road Livermore, CA 94550	2,175,413	17.5%
Dimensional Fund Advisors, Inc.(3) 1299 Ocean Avenue, 11th Floor Santa Monica, CA 90401	735,600	5.9%
Dennis C. Kakures(2)(4)	300,343	2.4%
Delight Saxton(2)	316,716	2.5%
Thomas J. Sauer(2)(4)	253,226	2.0%
Scott A. Alexander(2)	192,193	1.5%
Randle F. Rose(2)(5)	26,092	*
Ronald H. Zech(5)	18,750	*
William J. Dawson(5)	12,000	*
Robert C. Hood(5)	5,700	*
All Executive Officers and Directors as a group (11 persons)(1)(2)(4)(5)	3,339,267	26.7%

* Denotes less than 1%.

(1) Includes 319,006 shares held by two organizations controlled by Mr. and Mrs. McGrath; however, they disclaim any beneficial interest in such shares.

(2) Includes the shares held by the McGrath RentCorp Employee Stock Ownership Plan for benefit of the named individual. The number of shares included is 56,367 shares for Mr. McGrath, 31,290 shares for Ms. McGrath, 49,034 shares for Mr. Kakures, 42,716 shares for Ms. Saxton, 36,852 shares for Mr. Sauer, 41,191 shares for Mr. Alexander, 1,092 shares for Mr. Rose, and 265,426 shares for all executive officers

as a group. These shares are included because beneficiaries under the Plan hold sole voting power over the shares (whether or not rights to the shares have vested).

(3) Dimensional Fund Advisors Inc. ("Dimensional"), an investment advisor registered under Section 203 of the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other investment vehicles, including commingled group trusts. (These investment companies and investment vehicles are the "Portfolios.") In its role as investment advisor and investment manager, Dimensional possessed both investment and voting power over 735,600 shares of McGrath RentCorp stock as of December 31, 2001. The Portfolios own all securities reported in this statement, and Dimensional disclaims beneficial ownership of such securities.

(4) Includes unvested shares issued to the named individual under the McGrath RentCorp Long-Term Stock Bonus Plan, which shares are subject to return to the Company under certain circumstances. The number of shares included is 15,424 shares for Mr. Kakures, 10,088 shares for Mr. Sauer, and 25,512 shares for all executive officers as a group.

(5) Includes 58,000 shares, which are the portions of outstanding stock options held by two officers and three directors that will be exercisable over the next 60 days.

Item 13. ***Certain Relationships and Related Transactions***

Indemnification Agreements

The Company has entered into Indemnification Agreements with each of its directors and executive officers. These Agreements require the Company to indemnify its officers or directors against expenses and, in certain cases, judgment, settlement or other payments incurred by the officer or director in suits brought by the Company, derivative actions brought by shareholders and suits brought by other third parties. Indemnification has been granted under these Agreements to the fullest extent permitted under California law in situations where the officer or director is made, or threatened to be made, a party to the legal proceeding because of his or her service to the Company.

Control

By virtue of their positions in the Company and ownership of the Company's Common Stock, Robert P. McGrath and Joan M. McGrath may be deemed "control persons" of the Company as that term is defined under the Securities Act of 1933, as amended.

Family Relationships

There are no family relationships between any director or executive officer of the Company except that Robert P. McGrath and Joan M. McGrath are husband and wife

Merger Agreement with Tyco

Concurrently with the execution of the merger agreement between the Company and a subsidiary of Tyco International Ltd. ("Tyco") (See "Item 1. Business – Merger Agreement with Tyco" above), Robert P. McGrath, the Chairman of the Board and Chief Executive Officer of the Company, entered into a Transitional Services Agreement with the Company, dated December 20, 2001, but to be effective only upon the consummation of the proposed merger. This Transitional Services Agreement provides that Mr. McGrath will continue to provide services to the Company for a period of three months following the closing of the merger, and in consideration thereof he will receive the same base salary and benefits that he received before the merger and a retention bonus of $1,000,000. At the same time, Mr. McGrath and Joan M. McGrath, his wife and a director of the Company, entered into Confidentiality and Non-Competition Agreements with the Company and a subsidiary of Tyco by which they agreed not to compete with the Company for a period of five years following the consummation of the merger. The Transitional Services Agreement is filed as Exhibit 10.7 hereto, and the Confidentiality and Non-Competition Agreements are filed as Exhibits 10.8 and 10.9 hereto. The foregoing descriptions of the Transitional Services Agreement and the Confidentiality and Non-

Competition Agreements do not purport to be complete descriptions and are qualified by reference to the full text of those agreements attached hereto.

PART IV

Item 14. ***Exhibits, Financial Statement Schedules and Reports on Form 8-K***

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

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

2. *Financial Statement Schedules.* None

3. *Exhibits.* See Index of Exhibits on page 49 of this report.

(b) Reports on Form 8-K. A Current Report on Form 8-K was filed by the Company on December 26, 2001, by which the Company reported entering into the Merger Agreement with Tyco.

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.

MCGRATH RENTCORP

by: /s/ ROBERT P. MCGRATH

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

Date: March 18, 2002

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

Name	Title	Date
/s/ WILLIAM J. DAWSON	Director	March 18, 2002
William J. Dawson		
/s/ ROBERT C. HOOD	Director	March 18, 2002
Robert C. Hood		
/s/ JOAN M. MCGRATH	Director	March 18, 2002
Joan M. McGrath		
/s/ ROBERT P. MCGRATH	Chairman of the Board and Chief Executive Officer	March 18, 2002
Robert P. McGrath		
/s/ THOMAS J. SAUER	Vice President and Chief Financial Officer (Chief Accounting Officer)	March 18, 2002
Thomas J. Sauer		
/s/ DELIGHT SAXTON	Senior Vice President and Director	March 18, 2002
Delight Saxton		
/s/ RONALD H. ZECH	Director	March 18, 2002
Ronald H. Zech		

McGRATH RENTCORP

INDEX TO EXHIBITS

Number	Description	Method of Filing
2.1	Agreement and Plan of Merger, dated as of December 20, 2001, by and between Tyco Acquisition Corp. 33 and McGrath RentCorp	Filed as Exhibit 99.1 to the Company's Current Report on Form 8-K, filed December 26, 2001, and incorporated herein by reference.
2.1.1	Guarantee of Tyco International Ltd. (to Agreement and Plan of Merger), dated as of December 20, 2001	Filed as Exhibit 99.1 to the Company's Current Report on Form 8-K, filed December 26, 2001, and incorporated herein by reference.
2.1.2	Exemplar Shareholder Agreement entered into by and between Tyco Acquisition Corp. 33 and certain shareholders of McGrath RentCorp	Filed as Exhibit 99.2 to the Company's Current Report on Form 8-K, filed December 26, 2001, and incorporated herein by reference.
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), incorporated herein by reference.
3.2	Amended and Restated By-Laws of McGrath RentCorp	Filed as exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990 (filed March 28, 1991), incorporated herein by reference.
3.2.1	Amendment of By-Laws of McGrath RentCorp	Filed as exhibit 3.2.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (filed March 31, 1998), incorporated herein by reference.
3.2.2	Amendment of By-Laws of McGrath RentCorp	Filed as exhibit 3.2.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (filed March 31, 1999, amended June 25, 1999), incorporated herein by reference.
3.2.3	Amendment of By-Laws of McGrath RentCorp	Filed as exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999 (filed May 14, 1999, amended June 25, 1999) and incorporated herein by reference.
3.2.4	Amendment of By-Laws of McGrath RentCorp	Filed as exhibit 3.2.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (filed March 27, 2000), incorporated herein by reference.

Number	Description	Method of Filing
4.1	Note Purchase Agreement	Filed as exhibit 4.3 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.
4.1.1	Schedule of Notes with Sample Note	Filed as exhibit 4.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (filed August 11, 1998), and incorporated herein by reference.
4.1.2	Amended Schedule of Notes with Sample Note	Filed as exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 (filed August 8, 2001), and incorporated herein by reference.
4.2	Second Amended and Restated Credit Agreement June 2001	Filed as exhibit 4.1 to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 (filed August 8, 2001), and incorporated herein by reference.
4.3	$5,000,000 Committed Credit Facility June 2001	Filed as exhibit 4.2 to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 (filed August 8, 2001), and incorporated herein by reference.
10.1	McGrath RentCorp 1987 Incentive Stock Option Plan	Filed as exhibit 19.3 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.
10.1.1	Exemplar Form of the Incentive Stock Option Agreement	Filed as exhibit 19.3 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.
10.1.2	Schedule of Options Granted to Officers under 1987 Plan.	Filed herewith.
10.2	McGrath RentCorp 1998 Stock Option Plan	Filed as exhibit 10.1 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.
10.2.1	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.
10.2.2	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.
10.2.3	Schedule of Options Granted to Officers and Directors under 1998 Plan.	Filed herewith.
10.3	Exemplar Form of the Directors, Officers and Other Agents Indemnification Agreements	Filed herewith.

Number	Description	Method of Filing
10.4	Long-Term Stock Bonus Plan.	Filed as exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990 (filed March 28, 1991), and incorporated herein by reference.
10.4.1	Exemplar Long-Term Stock Bonus Agreement under Long-Term Stock Bonus Plan.	Filed as exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990 (filed March 28, 1991), and incorporated herein by reference.
10.5	2000 Long-Term Stock Bonus Plan.	Filed as exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 (filed March 30, 2001), and incorporated herein by reference.
10.5.1	Exemplar Long-Term Stock Bonus Agreement under 2000 Long-Term Stock Bonus Plan utilized for the 2000-2002 Programs.	Filed as exhibit 10.4.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 (filed March 30, 2001), and incorporated herein by reference.
10.5.2	Exemplar Long-Term Stock Bonus Agreement under 2000 Long-Term Stock Bonus Plan utilized for Programs starting in 2001.	Filed herewith.
10.6	Enviroplex Stock Exchange Agreement dated June 2, 2001, by and between McGrath RentCorp, Joe G. Sublett and Donald M. Curtis	Filed herewith.
10.7	Transitional Services Agreement, dated as of December 20, 2001, by and between McGrath RentCorp and Robert P. McGrath	Filed herewith.
10.8	Confidentiality and Non-Competition Agreement, dated as of December 20, 2001, by and between McGrath RentCorp, Tyco Acquisition Corp. 33 and Robert P. McGrath	Filed herewith.
10.9	Confidentiality and Non-Competition Agreement, dated as of December 20, 2001, by and between McGrath RentCorp, Tyco Acquisition Corp. 33 and Joan M. McGrath	Filed herewith.
23	Written Consent of Arthur Andersen, LLP	Filed herewith.
99	Letter Pursuant to Temporary Note 3T	Filed herewith.

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

See the Investor Relations section of Corporate Information at for the Company's most recent SEC filings

Exhibit 10.1.2

1987 PLAN OPTIONS GRANTED TO CURRENT OFFICERS - 1987 PLAN

NAME	GRANT DATE	NUMBER OF OPTIONS*	EXERCISE PRICE *
Laura C. Cissell	June 13, 1996	20,000	$10.75

* Split Adjusted

Exhibit 10.2.3

OPTIONS GRANTED TO CURRENT OFFICERS / DIRECTORS - 1998 PLAN

NAME	GRANT DATE	NUMBER OF OPTIONS	EXERCISE PRICE
Laura C. Cissell	March 9, 1998	10,000	20.810
Randle F. Rose	March 9, 1998	20,000	20.810
Ronald H. Zech	June 11, 1998	10,000	20.250
William J. Dawson	August 17, 1998	10,000	21.688
William J. Dawson	December 22, 1999	4,000	18.250
Robert C. Hood	December 22, 1999	10,000	18.250
Ronald H. Zech	December 22, 1999	4,000	18.250
Laura C. Cissell	October 31, 2000	45,000	17.000
Randle F. Rose	October 31, 2000	30,000	17.000
William J. Dawson	November 8, 2000	4,000	15.938
Robert C. Hood	November 8, 2000	4,000	15.938
Ronald H. Zech	November 8, 2000	4,000	15.938
William J. Dawson	November 16, 2001	4,000	25.550
Robert C. Hood	November 16, 2001	4,000	25.550
Ronald H. Zech	November 16, 2001	4,000	25.550

Exhibit 10.3

MCGRATH RENTCORP

INDEMNIFICATION AGREEMENT

This Indemnification Agreement (the "Agreement") is entered into, effective as of December 11, 2001, between McGrath RentCorp, a California corporation, and Xxxxxx Xxxxxx ("Xxxxxx").

Whereas, it is essential to McGrath RentCorp to retain and attract, as directors, officers and other agents, the most capable persons available; and

Whereas, Xxxxxx is a director and/or officer or other agent of McGrath RentCorp; and

Whereas, both McGrath RentCorp and Xxxxxx recognize the increased risk of litigation and other claims currently being asserted against directors, officers and other agents of corporations; and

Whereas, in recognition of Xxxxxx's need for substantial protection against personal liability in order to enhance Xxxxxx's continued and effective service to McGrath RentCorp, and in order to induce Xxxxxx to provide services to McGrath RentCorp as a director, officer or other agent, McGrath RentCorp desires to provide in this Agreement for the indemnification of, and the advancing of expenses to, Xxxxxx to the fullest extent (whether partial or complete) permitted by law (regardless of any amendment to or revocation of any Bylaws of McGrath RentCorp or any change in the ownership of McGrath RentCorp or the composition of its Board of Directors) and, to the extent insurance is maintained, for the coverage of Xxxxxx under McGrath RentCorp's general and/or directors' and officers' liability insurance policies; and

Whereas, Xxxxxx is relying upon the rights afforded him under this Agreement in continuing in his position with McGrath RentCorp;

NOW, THEREFORE, in consideration of the above premises and of Xxxxxx continuing to serve McGrath RentCorp directly or, at its request, with another enterprise, and intending to be legally bound hereby, the parties agree as follows:

1. CERTAIN DEFINITIONS

As used in this Agreement, the capitalized terms listed below shall have the meaning ascribed to them as follows:

1.1 "BOARD" means the Board of Directors of McGrath RentCorp.

1.2 A "CHANGE IN CONTROL" shall be deemed to have occurred if:

1.2.1 at any time after the effective date of this Agreement, any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended), other than a trustee or other fiduciary holding securities under an employee benefit plan of McGrath RentCorp or a corporation owned directly or indirectly by the stockholders of McGrath RentCorp in substantially the same proportions as their ownership of stock of McGrath RentCorp, becomes the "Beneficial Owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of McGrath RentCorp representing 30% or more of the total voting power represented by McGrath RentCorp's then outstanding Voting Securities; or

1.2.2 during any period of two consecutive years after the effective date of this Agreement (or if two years have not elapsed since the effective date of this Agreement, such shorter period), individuals who at the beginning of such period constitute the Board and any new director whose election by the Board or nomination for election by McGrath RentCorp's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office, who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

1.2.3 anytime after the effective date of this Agreement, the stockholders of McGrath RentCorp approve a merger or consolidation of McGrath RentCorp with any other corporation, other than a merger or consolidation which results in the Voting Securities of McGrath RentCorp outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into Voting Securities of the surviving entity) at least 80% of the total voting power represented by the Voting Securities of McGrath RentCorp or such surviving entity outstanding immediately after such merger or

consolidation and such plan of merger or consolidation is not abandoned or otherwise terminated before completion; or

1.2.4 anytime after the effective date of this Agreement, the stockholders of McGrath RentCorp approve a plan of complete liquidation of McGrath RentCorp or an agreement for the sale or disposition by McGrath RentCorp (in one transaction or a series of transactions) of all or substantially all of McGrath RentCorp's assets and such plan or agreement is not abandoned or otherwise terminated before completion.

1.3 "EXPENSES" shall be broadly construed and shall mean any expense, liability or loss, including but not limited to attorneys' fees, judgments, fines, ERISA excise taxes, penalties, amounts paid or to be paid in settlement, any interest, assessments or other charges imposed thereon, any federal, state, local or foreign taxes imposed as a result of the actual or deemed receipt of any payments under this Agreement, and all other costs and obligations, paid or incurred or accrued in connection with investigating, defending, being a witness in, or participating in (including on appeal), or preparing for any of the foregoing in, any Proceeding relating to any Indemnifiable Event or enforcing a right to indemnification under this Agreement, Section 317 of the California Corporations Code or otherwise. "Expenses" shall also include the amount of any reasonable retainer required for Xxxxxx to retain competent counsel to defend him in any Proceeding relating to any Indemnifiable Event.

1.4 An "INDEMNIFIABLE EVENT" is any event or occurrence that takes place either prior to or after the execution of this Agreement, related to the fact Xxxxxx:

1.4.1 is or was a director, an officer, an employee or an agent of McGrath RentCorp; or

1.4.2 is or was serving at the request of McGrath RentCorp as a director, officer, employee, trustee, agent or fiduciary of another foreign or domestic corporation, partnership, joint venture, employee benefit plan, trust or other enterprise; or

1.4.3 is or was a director, officer, employee or agent of a foreign or domestic corporation that is a predecessor corporation of McGrath RentCorp or of another enterprise at the request of such predecessor corporation; and is related to anything done or not done by Xxxxxx in any such capacity, whether or not the basis of the Proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent of McGrath RentCorp, as described in subsections 1.4.1 through 1.4.3 above.

1.5 "INDEPENDENT COUNSEL" is an attorney, law firm or member of a law firm, experienced in matters of corporate law, selected by Xxxxxx and approved by McGrath RentCorp (which approval shall not be unreasonably withheld), and who has not otherwise performed services for McGrath RentCorp, Xxxxxx or any other party to the Proceeding giving rise to a claim for indemnification hereunder (other than in connection with other indemnification matters) within the last five years; provided, however, Independent Counsel shall not include any person or entity who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either McGrath RentCorp or Xxxxxx in an action to determine Xxxxxx's rights under this Agreement. In the event that one or more persons seeking indemnification and/or advancement of expense under indemnification agreements with McGrath RentCorp substantially the same as this Agreement has or have selected independent counsel, the person so selected shall serve as Independent Counsel with respect to Xxxxxx unless Xxxxxx has a reasonable belief that the person so serving as independent counsel with respect to such other persons has a conflict of interest with respect to Xxxxxx, does not meet the requirement for Independent Counsel set forth in this Section 1.5, or is otherwise not an appropriate choice to serve as Independent Counsel with respect to Xxxxxx.

1.6A "PROCEEDING" is any threatened, pending or completed action (including an action by or in the right of McGrath RentCorp), suit or proceeding, or any inquiry, hearing or investigation, whether conducted by McGrath RentCorp or any other party, Xxxxxx in good faith believes might lead to the institution of any such action, suit or proceeding, whether civil, criminal, administrative, investigative or other.

1.7 The "REVIEWING PARTY" is any appropriate person or body consisting of a member or members of the Board or any other person or body appointed by the Board, none of whom is a party to the particular Proceeding with respect to which Xxxxxx is seeking indemnification; provided, however, after a Change in Control (other than a Change in Control approved by a majority of directors of the Board who were directors immediately prior to such Change in Control), the Reviewing Party shall be Independent Counsel.

1.8 "VOTING SECURITIES" are any securities of McGrath RentCorp that vote

generally in the election of directors.

2. AGREEMENT TO INDEMNIFY

2.1 GENERAL AGREEMENT.

2.1.1 In the event Xxxxxx was, is or becomes a party to, or witness or other participant in, or is threatened to be made a party to, or witness or other participant in, a Proceeding by reason of (or arising in part out of) an Indemnifiable Event,

McGrath RentCorp shall indemnify Xxxxxx from and against any and all Expenses to the fullest extent permitted by law, as the same exists or may hereafter be amended or interpreted (but in the case of any such amendment or interpretation, only to the extent such amendment or interpretation permits McGrath RentCorp to provide broader indemnification rights than were permitted prior thereto). The parties hereto intend that this Agreement shall provide for indemnification and the advancement of Expenses to the fullest extent permitted by law, notwithstanding that such action is not specifically authorized by other provisions of this Agreement, by McGrath RentCorp's Articles of Incorporation or Bylaws, or by statute.

2.1.2 The rights to receive indemnification and the advancement of Expenses under this Agreement are not exclusive of any other rights to which Xxxxxx may be entitled or subsequently entitled under any law, statute or rule, McGrath RentCorp's Articles of Incorporation or Bylaws, by vote of the shareholders or the Board or otherwise.

2.1.3 To the extent that a change in applicable law, statute or rule (including without limitation by judicial decision) permits greater indemnification by agreement than would be afforded currently under McGrath RentCorp's Articles of Incorporation or Bylaws, applicable law or this Agreement, it is the intent of the parties that Xxxxxx enjoy by this Agreement the greater benefits so afforded by such change. In the event of any change in any applicable law, statute or rule (including without limitation by judicial decision) which narrows the right of a California corporation to indemnify a director, officer, employee or agent of the corporation, such changes, to the extent not otherwise required by such applicable law, statute or rule to be applied to this Agreement, shall have no effect on this Agreement or the parties' rights and obligations hereunder.

2.2 PARTIAL INDEMNIFICATION. If Xxxxxx is entitled under any provision of this Agreement to indemnification by McGrath RentCorp for some or a portion of Expenses, but not, however, for the total amount thereof, McGrath RentCorp shall nevertheless indemnify Xxxxxx for the portion thereof to which Xxxxxx is entitled.

2.3 PROHIBITED INDEMNIFICATION. Subject only to Section 2.4 below, if applicable, no indemnification nor Expense Advance (as defined below) pursuant to this Agreement shall be paid by McGrath RentCorp:

2.3.1 In connection with any Proceeding initiated by Xxxxxx against McGrath RentCorp or any director or officer of McGrath RentCorp (other than by way of defense, counter claim or cross claim which arises by reason of or in part out of an Indemnifiable Event), unless: (a) McGrath RentCorp has joined in, or the Board has consented to, the initiation of such Proceeding; (b) the Proceeding is one to enforce indemnification rights under this Agreement or any other agreement or insurance policy or under McGrath RentCorp's Articles of Incorporation or Bylaws; or (c) the Proceeding is instituted after a Change in Control and Independent Counsel has approved its initiation;

2.3.2 On account of any Proceeding in which judgment is rendered against Xxxxxx for an accounting of profits made from the purchase or sale by Xxxxxx of securities of McGrath RentCorp pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provisions of any federal, state or local laws;

2.3.3 To the extent Xxxxxx settles or otherwise disposes of a Proceeding or causes the settlement or disposal of a Proceeding without McGrath RentCorp's express prior written consent (which shall not be unreasonably withheld), unless Xxxxxx receives court approval for such settlement or other disposition where McGrath RentCorp had the opportunity to oppose Xxxxxx's request for such court approval or the settlement is approved by Independent Counsel;

2.3.4 With regard to any judicial award if McGrath RentCorp was not given a reasonable and timely opportunity, at its expense, to participate in the defense of such action unless McGrath RentCorp's participation in such Proceeding was barred by this Agreement or the court in such Proceeding; or

2.3.5 For any acts, omissions, transactions or circumstances for which indemnification is prohibited by applicable state or federal law.

For convenience only, a copy of Sections 204(a)(10), 204(a)(11) and 317 of the California Corporations Code, the principal provisions which limit Xxxxxx's right to indemnification, is included as Appendix A hereto. Xxxxxx is cautioned that indemnification may be further limited by any changes to such laws or any other applicable law. MCGRATH RENTCORP IS NOT OBLIGATED TO NOTIFY XXXXXX OF ANY SUCH CHANGES. Further, McGrath RentCorp and Xxxxxx are advised that the

Securities and Exchange Commission believes indemnification for liabilities arising under federal securities laws is against public policy and is, therefore, unenforceable.

2.4 MANDATORY INDEMNIFICATION. Notwithstanding any other provision of this Agreement, to the extent Xxxxxx has been successful on the merits (within the meaning of Section 317(d) of the California Corporations Code) in defense of any Proceeding relating in whole or in part to an Indemnifiable Event or in defense of any issue or matter therein, Xxxxxx shall be indemnified against all Expenses incurred in connection therewith.

3. EXPENSE ADVANCES

3.1 ADVANCE OF EXPENSES TO XXXXXX. Expenses incurred by Xxxxxx in any Proceeding for which indemnification may be sought under this Agreement shall be advanced by McGrath RentCorp to Xxxxxx within twenty (20) business days after receipt by McGrath RentCorp of a statement or statements from Xxxxxx requesting such advance and reasonably evidencing the Expenses incurred by Xxxxxx (each an "Expense Advance" and collectively, "Expense Advances"). Any dispute as to whether and to what extent Xxxxxx shall be entitled to Expense Advances shall be determined by the Reviewing Party upon submission by Xxxxxx or McGrath RentCorp, and the provisions of Sections 6.2 through 6.4 below shall apply.

3.2 REPAYMENT OF EXPENSES BY XXXXXX. If it is ultimately determined that Xxxxxx is not entitled to be indemnified by McGrath RentCorp, Xxxxxx hereby agrees to repay any Expense Advances advanced by McGrath RentCorp under Section 3.1 above. Xxxxxx agrees to execute any further agreements regarding the repayment of Expense Advances as McGrath RentCorp may reasonably request prior to receiving any such advances. Ultimate determination as to whether or not Xxxxxx is entitled to be indemnified shall be made in accordance with Section 6 below.

4. INDEPENDENT COUNSEL; THE REVIEWING PARTY

4.1 WRITTEN OPINIONS. Any opinion required in this Agreement to be given by the Reviewing Party or by Independent Counsel shall be given in writing to McGrath RentCorp and Xxxxxx concurrently.

4.2 EXPENSES OF INDEPENDENT COUNSEL. McGrath RentCorp agrees to bear the reasonable fees and expenses of Independent Counsel, irrespective of the determination as to Xxxxxx's entitlement to indemnification. McGrath RentCorp further agrees to indemnify such counsel fully against any and all expenses (including attorneys' fees), claims, liabilities, losses and damages arising out of or relating to this Agreement or the engagement of such Independent Counsel pursuant to this Agreement.

5. NOTIFICATION AND DEFENSE OF PROCEEDING

5.1 NOTICE OF CLAIM. Xxxxxx shall give written notice to McGrath RentCorp promptly after Xxxxxx has actual knowledge of any Proceeding as to which indemnity may be sought under this Agreement. The failure of Xxxxxx to give written notice, as provided in this Section 5.1, shall not relieve McGrath RentCorp of its obligations to provide indemnification under this Agreement or otherwise, unless and only to the extent that such failure or delay materially prejudices McGrath RentCorp.

5.2 DEFENSE. With respect to any Proceeding, McGrath RentCorp will be entitled to participate in the Proceeding at its own expense. Except as otherwise provided below, to the extent McGrath RentCorp so desires, it may, upon delivery of written notice to Xxxxxx, assume the defense of any Proceeding with counsel reasonably satisfactory to Xxxxxx. However, McGrath RentCorp shall not be entitled to assume the defense of any Proceeding (i) brought by or on behalf of McGrath RentCorp, or (ii) as to which Xxxxxx has reasonably determined there may be a conflict of interest between Xxxxxx and McGrath RentCorp in the defense of the Proceeding and Xxxxxx does in fact assume and conduct the defense.

5.2.1 If McGrath RentCorp assumes the defense, Xxxxxx shall furnish such information as he may possess regarding Xxxxxx or the Proceeding in question that McGrath RentCorp may reasonably request and as may be required in connection with the defense or settlement of such Proceeding and shall fully cooperate with McGrath RentCorp in every other respect. Except as provided in Section 5.3 below, if McGrath RentCorp assumes the defense of the Proceeding, McGrath RentCorp shall take all necessary steps in good faith to defend, settle or otherwise dispose of the Proceeding.

5.2.2 After written notice from McGrath RentCorp to Xxxxxx of its election to assume the defense of any Proceeding, McGrath RentCorp will not be liable to Xxxxxx under this Agreement or otherwise for any Expenses subsequently incurred by Xxxxxx in connection with the defense of such Proceeding other than reasonable costs of investigation or as otherwise provided in clauses (i) through (iv) below. Xxxxxx shall have the right to employ Xxxxxx's own counsel in such Proceeding, but all Expenses related thereto incurred after written notice from McGrath RentCorp of its assumption of the defense shall be at Xxxxxx's expense, unless: (i) the employment of counsel by Xxxxxx has been authorized by McGrath RentCorp; (ii) Xxxxxx has reasonably determined there may be a conflict of interest between Xxxxxx and McGrath RentCorp in the defense of the Proceeding; (iii) after a Change in Control, the employment of counsel by Xxxxxx has been approved by Independent Counsel; or (iv) McGrath RentCorp shall

not, in fact, assume and conduct the defense of such Proceeding within a reasonable time after giving written notice of its election to assume the defense of such Proceeding.

5.2.3 Any Expenses incurred by McGrath RentCorp in defense of the Proceeding under this Section 5.2 (except in a situation described in clause (i), (ii) or (iv) of Section 5.2.2) shall be considered Expenses advanced by McGrath RentCorp to Xxxxxx under Section 3 above.

5.3 LIMITATION ON MCGRATH RENTCORP'S DISPOSITION OF ANY PROCEEDING. McGrath RentCorp may consent to a settlement or other disposition of all or any part of any Proceeding which McGrath RentCorp is defending under Section 5.2 above without first obtaining the written consent of Xxxxxx, provided (i) McGrath RentCorp shall not settle any Proceeding in any manner that would impose any penalty or limitation on Xxxxxx without Xxxxxx's written consent, except for a monetary obligation fully indemnified by McGrath RentCorp, and (ii) any settlement or other disposition does not cause Xxxxxx to lose any material right to indemnification under this Agreement.

6. INDEMNIFICATION PROCESS AND APPEAL

6.1 INITIAL REQUEST AND DETERMINATION.

6.1.1 To obtain payment(s) of Expenses under this Agreement, Xxxxxx shall submit to McGrath RentCorp a written request(s) therefor, including such documentation and information as is reasonably available to Xxxxxx and is reasonably necessary to determine whether and to what extent Xxxxxx is entitled to such payment(s). A determination as to whether and to what extent a requested payment is proper shall be made by the Reviewing Party as soon as practicable, and (if applicable) payment thereof shall be made by McGrath RentCorp as soon as practicable thereafter, but in each case no later than thirty (30) business days after receipt of the initial written request, except in the case of Expense Advances, the determination and payment of which (if applicable) shall be made no later than twenty (20) business days after written request by Xxxxxx is presented to McGrath RentCorp.

6.1.2 McGrath RentCorp may initiate a determination from the Reviewing Party as to whether and to what extent Xxxxxx is entitled to indemnification at any time after final resolution of the Proceeding for which indemnity is claimed hereunder, subject to Xxxxxx's rights to require such determination as set forth above.

6.1.3 Xxxxxx shall cooperate with the Reviewing Party making the determination with respect to Xxxxxx's entitlement to indemnification, including providing to such person(s) or body any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Xxxxxx and reasonably necessary for such determination. All reasonable Expenses incurred by Xxxxxx in so cooperating with the person(s) or body making such determination shall be borne by McGrath RentCorp, irrespective of the determination as to Xxxxxx's entitlement to indemnification.

6.2 SUIT TO ENFORCE RIGHTS. Regardless of any action or inaction by the Reviewing Party, if Xxxxxx has not received payment of an Expense Advance after making a request therefor in accordance with Section 3.1 above or full indemnification of Expenses after making a demand therefor in accordance with Section 6.1 above within sixty (60) days of such request or demand, Xxxxxx shall have the right to enforce his indemnification rights under this Agreement by commencing litigation in any court in the State of California having subject matter jurisdiction thereof and in which venue is proper seeking an initial determination by the court or challenging any determination by the Reviewing Party or any aspect thereof. Likewise, McGrath RentCorp may seek an initial determination by the court or challenge any determination by the Reviewing Party in the manner set forth above. McGrath RentCorp and Xxxxxx each hereby consent to service of process and to appear in any such proceeding. Any determination by the Reviewing Party not challenged by Xxxxxx or McGrath RentCorp through legal action within two years after final resolution of the Proceeding shall be binding on McGrath RentCorp and Xxxxxx. The remedy provided for in this Section 6 shall be in addition to any other remedies available to Xxxxxx or McGrath RentCorp in law or equity.

6.3 DEFENSE TO INDEMNIFICATION, BURDEN OF PROOF, PRESUMPTIONS AND EQUITABLE RELIEF.

6.3.1 It shall be a defense to any action brought by Xxxxxx or McGrath RentCorp concerning enforceability of this Agreement that it is not permissible under applicable law for McGrath RentCorp to indemnify Xxxxxx for the amount claimed.

6.3.2 In connection with any action or determination by any Reviewing Party or otherwise as to whether Xxxxxx is entitled to be indemnified hereunder, the burden of proving such a defense or determination shall be on McGrath RentCorp.

6.3.3 Neither the failure of the Reviewing Party or McGrath RentCorp (including its Board, Independent Counsel or stockholders) to have made a determination prior to the commencement of such action by Xxxxxx that indemnification of the claimant is proper under the circumstances because he has

met any particular standard of conduct or had any particular belief, nor an actual determination by the Reviewing Party or McGrath RentCorp (including its Board, Independent Counsel or stockholders) that Xxxxxx has not met such applicable standard of conduct or did not have such belief, shall be a defense to the action or create a presumption Xxxxxx has not met the applicable standard of conduct.

6.3.4 For purposes of this Agreement, the termination of any claim, action, suit or proceeding by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere or its equivalent shall not create a presumption Xxxxxx did not meet any particular standard of conduct or have any particular belief or that a court has determined indemnification is not permitted by applicable law.

6.3.5 McGrath RentCorp agrees that its failure to make indemnification payments or Expense Advances to Xxxxxx shall cause irreparable damage to Xxxxxx, the exact amount of which is impossible to ascertain, and for this reason agrees that Xxxxxx shall be entitled to such injunctive or other equitable relief as shall be necessary to adequately provide for such reasonably anticipated payments, said right to be in addition to all other rights or remedies available to Xxxxxx hereunder.

6.4 INDEMNIFICATION FOR EXPENSES INCURRED IN ENFORCING RIGHTS. McGrath RentCorp shall indemnify Xxxxxx against any and all Expenses and, if requested by Xxxxxx, shall (within twenty (20) business days of such request) advance such Expenses to Xxxxxx that are incurred by Xxxxxx in connection with any claim asserted against or action brought by Xxxxxx against McGrath RentCorp for:

6.4.1 indemnification of Expenses or payment of Expense Advances by McGrath RentCorp under this Agreement or any other agreement or under applicable law or McGrath RentCorp's Articles of Incorporation or Bylaws now or hereafter in effect relating to indemnification for Indemnifiable Events; or

6.4.2 recovery under directors' and officers' liability insurance policies maintained by McGrath RentCorp; regardless of whether Xxxxxx ultimately is determined to be entitled to such indemnification, Expense Advances or insurance recovery, as the case may be.

7. INSURANCE; SUBROGATION

7.1 LIABILITY INSURANCE. To the extent McGrath RentCorp maintains an insurance policy or policies providing general and/or directors' and officers' liability insurance, Xxxxxx shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any director, officer, employee or agent of McGrath RentCorp and to the extent Xxxxxx occupies any such positions with McGrath RentCorp or any other entity at the request of McGrath RentCorp.

7.2 NO DUPLICATION OF PAYMENTS. McGrath RentCorp shall not be liable under this Agreement to make any payment in connection with any claim made against Xxxxxx to the extent Xxxxxx has otherwise received payment (under any insurance policy, the Bylaws of McGrath RentCorp or otherwise) of the amounts otherwise indemnifiable hereunder.

7.3 SUBROGATION. In the event of payment under this Agreement, McGrath RentCorp shall be subrogated to the extent of such payment to all of the rights of recovery of Xxxxxx, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable McGrath RentCorp effectively to bring suit to enforce such rights.

8. STANDARD PROVISIONS

8.1 CONTINUING COVERAGE. The indemnification and the payment of Expense Advances provided under this Agreement shall continue as to Xxxxxx for any action taken or not taken while serving in an indemnified capacity pertaining to an Indemnifiable Event even though Xxxxxx may have ceased to serve in such capacity at the time of any Proceeding.

8.2 ENTIRE AGREEMENT; REMEDIES CUMULATIVE. This Agreement constitutes the entire agreement between the parties pertaining to the subject matter contained herein and supersedes all prior and contemporaneous agreements, representations and understandings of the parties, including in particular, that certain Indemnification Agreement by and between the parties hereto dated November 27, 2001. The rights and remedies provided in this Agreement and by law shall be cumulative and the exercise of any particular right or remedy shall not preclude the exercise of any other right or remedy in addition to, or as an alternative of, such right or remedy.

8.3 NOTICES. All notices, requests, demands and other communications required or permitted under this Agreement shall be made in writing and shall be deemed to have been duly given (i) on the date of service if served personally, (ii) on the date of transmission if sent by facsimile transmission with printed proof of electronic receipt, (iii) on the date of delivery if delivered by a courier service with proof of delivery, or (iv) on the third business day after

mailing if mailed by first class mail, certified--return receipt requested,
postage prepaid, to the following addresses:

If to McGrath RentCorp, then to: McGrath RentCorp
5700 Las Positas Road
Livermore, CA 94550
Attn: President
Fax: 1-925-453-3200

With a copy to: Christopher Ream, Esq.
2600 El Camino Real, Suite 410
Palo Alto, CA 94306-1719
Fax: 1-650-856-8448

If to Xxxxxx, then to: Xxxxxx Xxxxxx
McGrath RentCorp
5700 Las Positas Road
Livermore, CA 94550
Fax: 1-925-453-3200

Any party hereto may change its address set forth above for notices by giving notice to the other party hereto in accordance with the terms of this Section.

8.4 SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of McGrath RentCorp), assigns, spouses, heirs and personal and legal representatives. McGrath RentCorp shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, or substantially all, of the business and/or assets of McGrath RentCorp expressly to assume and agree to perform this Agreement in the same manner and to the same extent that McGrath RentCorp would be required to perform if no such succession had taken place. This Agreement may not be assigned without the prior written consent of the other parties hereto, which consent shall not be unreasonably withheld.

8.5 MODIFICATION; WAIVER; SUPERSEDURE. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed, or shall constitute, a waiver of any other provision hereof, whether or not similar, nor shall any waiver constitute a continuing waiver. No waiver of any of the provisions of this Agreement shall be binding unless in the form of a writing signed by the party against whom enforcement of the waiver is sought. Except as specifically provided herein, neither the failure to exercise nor any delay in exercising any right or remedy hereunder shall constitute a waiver thereof.

8.6 CONSTRUCTION.

8.6.1 The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

8.6.2 A reference herein to any section shall be deemed to include a reference to every section the number of which begins with the number of the section specifically referred to (e.g., a reference to Section 1.2 includes a reference to Sections 1.2, 1.2.1, 1.2.2, 1.2.3 and 1.2.4).

8.6.3 Any reference in this Agreement to the indemnity provisions of the Bylaws of McGrath RentCorp, to the California Corporations Code or to any applicable law shall refer to such provisions as they shall be amended from time to time or to any successor provision(s).

8.6.4 Any ambiguous terms in this Agreement will not be construed against McGrath RentCorp for drafting this Agreement.

8.7 APPLICABLE LAW. This Agreement, and all rights, remedies, liabilities, powers and duties of the parties to this Agreement, is to be construed in accordance with and governed by the internal laws of the State of California without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of California to the rights and duties of the parties.

8.8 SEVERABILITY. If any provision (or portion thereof) of this Agreement shall be held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable, the remaining provisions shall remain enforceable to the fullest extent

permitted by law. Furthermore, to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of this Agreement containing any provision held to be invalid, void or otherwise unenforceable, that is not itself invalid, void or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, void or unenforceable.

8.9 LEGAL ADVICE. XXXXXX IS AWARE THAT THIS AGREEMENT WAS PREPARED BY COUNSEL FOR MCGRATH RENTCORP. BY SIGNING BELOW, XXXXXX ACKNOWLEDGES THAT HE HAS BEEN ADVISED TO SEEK INDEPENDENT COUNSEL TO REVIEW THIS AGREEMENT ON HIS BEHALF PRIOR TO THE EXECUTION OF THIS AGREEMENT AND HAS HAD ADEQUATE TIME TO DO SO.

8.10 COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but both of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

MCGRATH RENTCORP

by

- ----------

XXXXXX XXXXXX

Robert P. McGrath, Chief Executive Officer

APPENDIX A

CALIFORNIA CORPORATIONS CODE

SECTION 204(a)(10) Provisions eliminating or limiting the personal liability of a director for monetary damages in an action brought by or in the right of the corporation for breach of a director's duties to the corporation and its shareholders, as set forth in Section 309, provided, however, that (A) such a provision may not eliminate or limit the liability of directors (i) for acts or omissions that involve intentional misconduct or a knowing and culpable violation of law, (ii) for acts or omissions that a director believes to be contrary to the best interests of the corporation or its shareholders or that involve the absence of good faith on the part of the director, (iii) for any transaction from which a director derived an improper personal benefit, (iv) for acts or omissions that show a reckless disregard for the director's duty to the corporation or its shareholders in circumstances in which the director was aware, or should have been aware, in the ordinary course of performing a director's duties, of a risk of serious injury to the corporation or its shareholders, (v) for acts or omissions that constitute an unexcused pattern of inattention that amounts to an abdication of the director's duty to the corporation or its shareholders, (vi) under Section 310, or (vii) under Section 316, (B) no such provision shall eliminate or limit the liability of a director for any act or omission occurring prior to the date when the provision becomes effective, and (C) no such provision shall eliminate or limit the liability of an officer for any act or omission as an officer, notwithstanding that the officer is also a director or that his or her actions, if negligent or improper, have been ratified by the directors.

SECTION 204(a)(11) A provision authorizing, whether by bylaw, agreement, or otherwise, the indemnification of agents (as defined in Section 317) in excess of that expressly permitted by Section 317 for those agents of the corporation for breach of duty to the corporation and its stockholders, provided, however, that the provision may not provide for indemnification of any agent for any acts or omissions or transactions from which a director may not be relieved of liability as set forth in the exception to paragraph (10) or as to circumstances in which indemnity is expressly prohibited by Section 317.

SECTION 317

(a) For the purposes of this section, "agent" means any person who is or was a director, officer, employee or other agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise, or was a director, officer, employee or agent of a foreign or domestic corporation which was a predecessor corporation of the corporation or of another enterprise at the request of the predecessor corporation; "proceeding" means any threatened, pending or completed action or proceeding, whether civil, criminal, administrative or investigative; and "expenses" includes without limitation attorneys' fees and any expenses of establishing a right to indemnification under subdivision (d) or paragraph (4) of subdivision (e).

(b) A corporation shall have power to indemnify any person who was or is a party or is threatened to be made a party to any proceeding (other than an action by or in the right of the corporation to procure a judgment in its favor) by reason of the fact that the person is or was an agent of the corporation, against expenses, judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with the proceeding if that person acted in good faith and in a manner the person reasonably believed to be in the best interests of the corporation and, in the case of a criminal proceeding, had no reasonable cause to believe

the conduct of the person was unlawful. The termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in the best interests of the corporation or that the person had reasonable cause to believe that the person's conduct was unlawful.

(c) A corporation shall have power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was an agent of the corporation, against expenses actually and reasonably incurred by that person in connection with the defense or settlement of the action if the person acted in good faith, in a manner the person believed to be in the best interests of the corporation and its shareholders.

No indemnification shall be made under this subdivision for any of the following:

(1) In respect of any claim, issue or matter as to which the person shall have been adjudged to be liable to the corporation in the performance of that person's duty to the corporation and its shareholders, unless and only to the extent that the court in which the proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, the person is fairly and reasonably entitled to indemnity for expenses and then only to the extent that the court shall determine.

(2) Of amounts paid in settling or otherwise disposing of a pending action without court approval.

(3) Of expenses incurred in defending a pending action which is settled or otherwise disposed of without court approval.

(d) To the extent that an agent of a corporation has been successful on the merits in defense of any proceeding referred to in subdivision (b) or (c) or in defense of any claim, issue, or matter therein, the agent shall be indemnified against expenses actually and reasonably incurred by the agent in connection therewith.

(e) Except as provided in subdivision (d), any indemnification under this section shall be made by the corporation only if authorized in the specific case, upon a determination that indemnification of the agent is proper in the circumstances because the agent has met the applicable standard of conduct set forth in subdivision (b) or (c), by any of the following:

(1) A majority vote of a quorum consisting of directors who are not parties to such proceeding.

(2) If such a quorum of directors is not obtainable, by independent legal counsel in a written opinion.

(3) Approval of the shareholders (Section 153), with the shares owned by the person to be indemnified not being entitled to vote thereon.

(4) The court in which the proceeding is or was pending upon application made by the corporation or the agent or the attorney or other person rendering services in connection with the defense, whether or not the application by the agent, attorney or other person is opposed by the corporation.

(f) Expenses incurred in defending any proceeding may be advanced by the corporation prior to the final disposition of the proceeding upon receipt of an undertaking by or on behalf of the agent to repay that amount if it shall be determined ultimately that the agent is not entitled to be indemnified as authorized in this section. The provisions of subdivision (a) of Section 315 do not apply to advances made pursuant to this subdivision.

(g) The indemnification authorized by this section shall not be deemed exclusive of any additional rights to indemnification for breach of duty to the corporation and its shareholders while acting in the capacity of a director or officer of the corporation to the extent the additional rights to indemnification are authorized in an article provision adopted pursuant to paragraph (11) of subdivision (a) of Section 204. The indemnification provided by this section for acts, omissions, or transactions while acting in the capacity of, or while serving as, a director or officer of the corporation but not involving breach of duty to the corporation and its shareholders shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any bylaw, agreement, vote of shareholders or disinterested directors, or otherwise, to the extent the additional rights to

indemnification are authorized in the articles of the corporation. An article provision authorizing indemnification "in excess of that otherwise permitted by Section 317" or "to the fullest extent permissible under California law" or the substantial equivalent thereof shall be construed to be both a provision for additional indemnification for breach of duty to the corporation and its shareholders as referred to in, and with the limitations required by, paragraph (11) of subdivision (a) of Section 204 and a provision for additional indemnification as referred to in the second sentence of this subdivision. The rights to indemnity hereunder shall continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of the person. Nothing contained in this section shall affect any right to indemnification to which persons other than the directors and officers may be entitled by contract or otherwise.

(h) No indemnification or advance shall be made under this section, except as provided in subdivision (d) or paragraph (4) of subdivision (e), in any circumstance where it appears:

(1) That it would be inconsistent with a provision of the articles, bylaws, a resolution of the shareholders, or an agreement in effect at the time of the accrual of the alleged cause of action asserted in the proceeding in which the expenses were incurred or other amounts were paid, which prohibits or otherwise limits indemnification.

(2) That it would be inconsistent with any condition expressly imposed by a court in approving a settlement.

(i) A corporation shall have power to purchase and maintain insurance on behalf of any agent of the corporation against any liability asserted against or incurred by the agent in that capacity or arising out of the agent's status as such whether or not the corporation would have the power to indemnify the agent against that liability under this section. The fact that a corporation owns all or a portion of the shares of the company issuing a policy of insurance shall not render this subdivision inapplicable if either of the following conditions are satisfied: (1) if the articles authorize indemnification in excess of that authorized in this section and the insurance provided by this subdivision is limited as indemnification is required to be limited by paragraph (11) of subdivision (a) of Section 204; or (2) (A) the company issuing the insurance policy is organized, licensed, and operated in a manner that complies with the insurance laws and regulations applicable to its jurisdiction of organization, (B) the company issuing the policy provides procedures for processing claims that do not permit that company to be subject to the direct control of the corporation that purchased that policy, and (C) the policy issued provides for some manner of risk sharing between the issuer and purchaser of the policy, on one hand, and some unaffiliated person or persons, on the other, such as by providing for more than one unaffiliated owner of the company issuing the policy or by providing that a portion of the coverage furnished will be obtained from some unaffiliated insurer or reinsurer.

(j) This section does not apply to any proceeding against any trustee, investment manager, or other fiduciary of an employee benefit plan in that person's capacity as such, even though the person may also be an agent as defined in subdivision (a) of the employer corporation. A corporation shall have power to indemnify such a trustee, investment manager, or other fiduciary to the extent permitted by subdivision (f) of Section 207.

Exhibit 10.5.2

MCGRATH RENTCORP

2000 LONG-TERM STOCK BONUS PLAN

XXXXX XXXXXXXX

2001-2003 PROGRAM

This Agreement by and between Xxxxx Xxxxx ("Xxxxxx") and McGrath RentCorp, a California corporation, provides that Xxxxxx is a participant in the 2001-2003 Program of the McGrath RentCorp 2000 Long-Term Stock Bonus Plan under the following terms and conditions.

1. INITIAL VALUES:

LTB Base Points:	XXX
EBITDA Multiplier:	X.X
Strike Result:	XX.X%
Backward Average EVPS:	$XX.XX

2. DEFINITIONS. For purposes of this Agreement, the following terms will have the following meanings ascribed to such terms below.

2.1 "Average EVPS Increase Percentage" shall be calculated in the manner set forth in Section 3.1.4 below.

2.2 "Backward Average EVPS" shall be the number set forth in Section 1 above. (The Backward Average EVPS set forth above was calculated by adding together the EVPS for the years 1998, 1999 and 2000, and then dividing that sum by three (3).)

2.3 "Board" shall mean the Board of Directors of McGrath RentCorp.

2.4 "Change in Control" shall mean that there has been a corporate merger or consolidation, a sale of all or substantially all of the assets, or a purchase of outstanding shares that results in a corporation, partnership, person or group of persons (which corporation, partnership, person or group of persons is not affiliated with Robert P. McGrath) owning (i) more than fifty percent (50%) of McGrath RentCorp's outstanding voting securities or (ii) all or substantially all of its assets and business.

2.5 "Debt" for any particular fiscal year shall mean the aggregate amount as of the end of that fiscal year, without duplication, of all of McGrath RentCorp's (1) obligations for borrowed money, (b) obligations evidenced by bonds (other than assessment and other special bonds associated with real property holdings), debentures, notes or other similar instruments, (c) capitalized lease obligations, and (d) obligations or liabilities of others secured by a lien on any of McGrath RentCorp's assets, whether or not such obligation or liability is assumed.

2.6 "EBITDA" for any particular fiscal year shall mean (1) the Income from Operations of McGrath RentCorp for that year as disclosed in McGrath RentCorp's published, audited financial statements for that year; plus (2) Depreciation and Amortization for that year as disclosed in McGrath RentCorp's audited financial statements for that year; plus (3) any other non-cash items of expense included in such Income from Operations that are not reasonably expected by McGrath RentCorp's management to settle in cash; and minus (4) any non-cash items of income included in such Income from Operations that are not reasonably expected by McGrath RentCorp's management settle in cash.

2.7 "EBITDA Multiplier" shall be the number set forth in Section 1 above.

2.8 "Enterprise Value" for any particular fiscal year shall be calculated in the manner set forth in Section 3.1.1 below.

2.9 "EVPS" for any particular fiscal year shall be calculated by dividing the Enterprise Value for that year by the Number of Shares for that year.

2.10 "Forward Average EVPS" shall be calculated in the manner set forth in Section 3.1.3 below.

2.11 "Xxxxxx Shares" shall mean all securities of McGrath RentCorp now owned by Xxxxxx or hereafter acquired by him in any manner whatsoever.

2.12 "LTB Base Points" shall be the number set forth in Section 1 above.

2.13 "LTB Final Points" shall be calculated in the manner set forth in Section 3.1.5 below.

2.14 "Number of Shares" for any particular fiscal year shall mean the Shares Used In Per Share Calculation, Diluted as such figure is disclosed in McGrath RentCorp's published, audited financial statements for that year.

2.15 The "Option to Repurchase" is the option granted by Xxxxxx in Section 6 below to McGrath RentCorp to purchase the Xxxxxx Shares.

2.16 "Stock Bonus Allocation" shall be the number of shares of McGrath RentCorp Common Stock allocated to Xxxxxx as a bonus under this Program, as determined in accordance with Section 3.2 below.

2.17 "Stock Value" as of a particular date shall mean the then current fair market value of McGrath RentCorp's Common Stock determined by calculating the average of the high and low prices reported for transactions in such Common Stock for each of the five preceding days on which transactions occurred on NASDAQ or any exchange on which the stock is then traded, as reported by The NASDAQ Stock Market, Inc. In the event McGrath's Common Stock is not then traded on NASDAQ or an exchange, the fair market value of the Common Stock shall be determined by the Board in good faith.

2.18 "Strike Result" shall be the number set forth in Section 1 above.

2.19 A "Successor to McGrath RentCorp" shall be (i) any corporation which is the surviving corporation in a merger or consolidation with McGrath RentCorp, or (ii) any corporation, partnership or person(s) which acquires all or substantially all of the assets of McGrath RentCorp in a transaction wherein a majority of the employees of McGrath RentCorp continue to be employed by such purchaser.

2.20 "Termination of Employment" shall mean the termination of Xxxxxx's employment with McGrath RentCorp (and its subsidiaries) for any reason whatsoever, whether by voluntary resignation due to disability or otherwise, by reason of Xxxxxx's death, or at the election of McGrath RentCorp for any reason whatsoever. A leave of absence approved by the Board of Directors of McGrath RentCorp shall not be considered to be a Termination of Employment for purposes of this Agreement.

3. CALCULATION OF STOCK BONUS ALLOCATION.

3.1 Calculation of LTB Final Points. As soon as the audited financial statements of McGrath RentCorp for the year ended December 31, 2003 have been published, the LTB Final Points shall be calculated as follows:

3.1.1 Enterprise Value shall be calculated for each of the years 2001, 2002 and 2003 in accordance with the following formula: Enterprise Value = (EBITDA * EBITDA Multiplier) - Debt.

3.1.2 EVPS shall then be calculated for each of the years 2001, 2002 and 2003 by taking the Enterprise Value for that year and dividing it by the Number of Shares for that year.

3.1.3 Forward Average EVPS shall then be calculated by adding together the EVPS for each of the years 2001, 2002 and 2003 calculated in accordance with Section 3.1.2 above, and then dividing that sum by three (3).

3.1.4 The Average EVPS Increase Percentage shall then be calculated in accordance with the following formula: Average EVPS Increase Percentage = (Forward Average EVPS - Backward Average EVPS) / Backward Average EVPS.

3.1.5 LTB Final Points are then calculated in accordance with the following formula: LTB Final Points = LTB Base Points * (Average EVPS Increase Percentage - Strike Result) * 100.

3.2 Allocation of Stock Bonus. Xxxxxx shall be allocated one (1) share of McGrath RentCorp Common Stock for each LTB Final Point, or portion thereof, calculated in accordance with Section 3.1 above.

3.2.1 The number of shares of McGrath RentCorp Common Stock to be allocated to Xxxxxx pursuant to this Section 3.2 shall be proportionally adjusted for any increase or decrease in the number of outstanding shares of Common Stock of

McGrath RentCorp resulting from a subdivision or consolidation of shares, or for the payment of a stock dividend (but only on the Common Stock), or for any other increase or decrease in the number of such shares effected without receipt of consideration by McGrath RentCorp. Adjustments under this Section 3.2.1 shall be determined by the Board, whose determination as to what adjustments shall be made, and the extent thereof, shall be final, binding and conclusive.

4. ISSUANCE OF SHARE CERTIFICATES.

4.1 Issuance of Stock Certificates. As soon as reasonably practical following the determination of Xxxxxx's Stock Bonus Allocation, McGrath RentCorp shall cause five stock certificates to be issued in the name of Xxxxxx, each one evincing twenty percent (20%) of the number of shares of McGrath RentCorp Common Stock allocated to him as a Stock Bonus.

4.2 Delivery of First Stock Certificate. McGrath RentCorp shall deliver to Xxxxxx one (1) of the stock certificates issued in accordance with Section 4.1 above.

4.3 Delivery and Re-Delivery of Four Remaining Stock Certificates. McGrath RentCorp shall deliver the remaining four (4) stock certificates to Xxxxxx, and Xxxxxx shall promptly redeliver back to McGrath RentCorp the four (4) stock certificates to be held by McGrath RentCorp for later redelivery to Xxxxxx in accordance with, and subject to, the forfeiture provisions set forth in Section 5 below.

4.4 Option to Receive a Portion in Cash. With respect to the shares of Common Stock delivered to Xxxxxx pursuant to Section 4.2 above, or with respect to any shares redelivered to him in accordance with Section 5.2 below, Xxxxxx may elect, by written notice given to McGrath RentCorp not less than ten (10) days nor more than thirty (30) days prior to the delivery or redelivery of a certificate evincing such shares, to receive the Stock Value of such shares in cash, in lieu of the issuance and delivery of such shares. For purposes of determining the Stock Value of such shares, the Stock Value shall be calculated as of the date of such notice.

4.4.1 Notwithstanding the foregoing right to elect to receive cash, the maximum amount of cash which Xxxxxx shall have the right to receive in lieu of the issuance and delivery of shares shall be forty percent (40%) of the aggregate Stock Value of Xxxxxx's entire Stock Bonus Allocation.

5. FORFEITURE UPON TERMINATION OF EMPLOYMENT.

5.1 Termination of Employment Prior to End of Program. In the event of Xxxxxx's termination of employment prior to December 31, 2003, Xxxxxx shall have no right to receive any Stock Bonus Allocation nor any certificates evincing any shares of McGrath RentCorp Common Stock to be issued pursuant to this Agreement.

5.2 Subsequent Delivery of Stock Certificates. Provided Xxxxxx has remained in the employ of McGrath RentCorp, or its subsidiaries, continuously from the date hereof through the applicable subsequent certificate delivery date, one certificate evincing twenty percent (20%) of the Stock Bonus Allocation held in the possession of McGrath RentCorp in accordance with Section 4.3 above, shall be delivered to Xxxxxx on December 31, 2004, and another one of the certificates shall be delivered to Xxxxxx each December 31 thereafter for as long as Xxxxxx remains in the continuous employ of McGrath RentCorp, or its subsidiaries, until December 31, 2007, at which time all five stock certificates shall have been delivered to Xxxxxx.

5.3 Termination of Employment Subsequent to December 31, 2003. In the event of Xxxxxx's Termination of Employment subsequent to December 31, 2003, Xxxxxx shall have the right to retain, subject to the Option to Repurchase set forth in Section 6 below all share certificates evincing Stock Bonus Allocations which had been delivered to him pursuant to Sections 4.2 or 5.2 above prior to his Termination of Employment; however, upon his Termination of Employment, such share certificates still held at that time by McGrath RentCorp pursuant to Section 4.3 or 5.2 above shall be immediately forfeited by him, and the shares evinced thereby shall be deemed canceled and returned to the status of authorized but unissued shares of McGrath RentCorp, and Xxxxxx shall have no further rights or claims thereto.

6. OPTION TO REPURCHASE. Upon Termination of Employment, Xxxxxx shall, and does hereby, offer for sale to McGrath RentCorp, all, but not less than all, of the Xxxxxx Shares on the terms specified in this Section 6.

6.1 Notice of Exercise. In order to exercise the Option to Repurchase the Xxxxxx Shares, McGrath RentCorp shall give notice of its

intention to so exercise to Xxxxxx, or to his personal representative in the event of his death or incapacity, within three (3) months following his Termination of Employment.

6.2 Repurchase Price. The Repurchase Price for the repurchase of the Xxxxxx Shares shall be the Stock Value as of the date of Termination of Employment or as of the date of the giving of the notice of exercise of the Option to Repurchase, with the election of which price shall apply being stated in the notice of exercise.

6.3 Terms of Payment. Payment of the Repurchase Price shall be made at the time that the notice of exercise of the Option to Repurchase is given. McGrath RentCorp may first offset against the Repurchase Price due to Xxxxxx any amount of indebtedness owed by Xxxxxx to McGrath RentCorp. Payment of the net amount of the Repurchase Price after the offset of indebtedness shall be as follows:

6.3.1 One-third (1/3) thereof in cash or by check; and

6.3.2 The remaining two-thirds (2/3) thereof by means of the delivery of a Promissory Note, bearing interest at the rate of nine percent (9%) per annum on the unpaid principal amount, and payable in ten (10) equal annual installments of principal plus accrued interest, commencing one year from the date thereof. Such Note shall permit prepayment of any amount by McGrath RentCorp at any time without penalty.

6.4 Other Shareholders. McGrath RentCorp may assign, partially or completely, its Option to repurchase to one or more of its shareholders, and each such assignee shall have the right to repurchase the Xxxxxx Shares in his, her or its own name and for his, her or its own account, all on the same terms and conditions specified in this Section 6; provided, that the exercise of the Option to Repurchase as so assigned shall result in the repurchase of all of the Xxxxxx Shares.

6.5 Restrictive Legend. The certificates evincing the Xxxxxx Shares shall be endorsed with an appropriate legend referring to the Option to Repurchase granted by this Section 6. Xxxxxx shall immediately cause to be delivered to McGrath RentCorp all certificates evincing Xxxxxx Shares which are currently outstanding so that they may be imprinted with such a legend. Such certificates shall be returned to Xxxxxx after they have been imprinted with the appropriate legend.

6.6 Permitted Transfers. Notwithstanding the provisions of this Section 6, nothing herein shall prevent Xxxxxx from making a bona fide sale or gift of any of the Xxxxxx Shares.

7. RESTRICTED ACTIVITIES.

7.1 Unfair Trade Practices. Xxxxxx acknowledges that the success of McGrath RentCorp's business as conducted depends to a large extent upon the business practices and methods used by it and upon the knowledge of the needs, preferences and particularities of each of its customers and suppliers, which practices, methods and knowledge are continuously developed by McGrath RentCorp. Xxxxxx further acknowledges that these practices, methods and knowledge constitute trade secrets which are valuable assets belonging to McGrath RentCorp. Accordingly, Xxxxxx agrees that, during his employment with McGrath RentCorp and for a period of five (5) years immediately following his Termination of Employment, he shall not, either directly or indirectly, (i) disclose to any person, firm or corporation, or use himself in any way, any trade secret of McGrath RentCorp (except as may be required in the course of his employment with McGrath RentCorp and for its benefit), or (ii) call on, solicit, divert or take away, or attempt to call on, solicit, divert or take away any person, firm or corporation who is a customer of or a supplier to McGrath RentCorp, or who is being solicited by McGrath RentCorp at the time of Xxxxxx's Termination of Employment, or who had been a customer of or supplier to McGrath RentCorp during the six months immediately preceding Xxxxxx's Termination of Employment.

7.2 Covenant Not to Compete. In order to protect the element of good will purchased in part by payment of the Repurchase Price for the Xxxxxx Shares, and as part of the consideration for the payment of the Repurchase Price in the event McGrath RentCorp (or some of its shareholders) purchases all of the Xxxxxx Shares, Xxxxxx agrees, for a period of two (2) years after such purchase, not to engage or participate, or cause any other person, firm or corporation to become engaged, in any activity or business within the geographical regions within which McGrath RentCorp conducts its business as of the date of Termination of Employment, either directly or indirectly, as an employee, agent, representative, partner, owner, director, officer or investor, which is in the same or similar business as McGrath RentCorp. For purposes of this Section 7.2, a purchase of the Xxxxxx Shares shall be deemed to have occurred when McGrath RentCorp (and/or other shareholders) tenders the Repurchase Price in accordance with Section 6.3 above.

7.3 Enforcement. Xxxxxx agrees that a violation on his part of any of the terms of this Agreement shall cause irreparable damage, the exact amount of which is impossible to ascertain, and for that reason agrees that McGrath RentCorp (and/or the other shareholders) shall be entitled to a decree of specific performance of the terms hereof and/or an injunction restraining further violations; said right to be in addition to any other remedies available under law.

8. SUCCESSOR TO MCGRATH RENTCORP.

8.1 Assumption of Program Obligations by Successor. Any Successor to McGrath RentCorp shall be required to assume the obligations then outstanding under this Program, or in the alternative, to enter into a substitute program which is approved and accepted by Xxxxxx in writing, which approval and acceptance shall not be unreasonably withheld.

8.2 Termination of Employment. As used in this Section 8 only, "Termination of Employment" shall not include a termination of Xxxxxx's employment by reason of his voluntary resignation due to disability or otherwise or by reason of his death.

8.3 Effect of Change in Control. In the event of a Termination of Employment at the time of a Change in Control or thereafter,

8.3.1 The share certificate delivery schedule set forth in Sections 4 and 5 above shall accelerate and the full Stock Bonus Allocation shall vest as of the date of such Termination of Employment notwithstanding Section 5.3 above, and all share certificates then held by McGrath RentCorp pursuant to Section 4.3 above shall be delivered to Xxxxxx; and

8.3.2 In the event Xxxxxx's Termination of Employment is prior to December 31, 2003, the calculation of the LTB Final Points in Section 3.1 above shall be made as of the last fiscal quarter completed prior to the Termination of Employment, with appropriate adjustments to the calculation therein of the Average Return on Equity.

9. MISCELLANEOUS PROVISIONS.

9.1 Tax Withholding. McGrath RentCorp (or any of its subsidiaries which employ Xxxxxx) shall have the right to deduct any sums that federal, state or local tax law requires to be withheld with respect to the issuance of Common Stock under this Program or as otherwise may be required by such laws. McGrath RentCorp (or such subsidiary) may require, as a condition to issuing shares of Common Stock under this Program, that Xxxxxx or his beneficiaries pay any sums that federal, state or local tax law requires to be withheld with respect to such issuance.

9.2 Privileges of Stock Ownership. Xxxxxx shall not be entitled to the privileges of stock ownership as to any shares of Common Stock which have been allocated to him but for which certificates have not been issued and delivered to him.

9.3 Non-Transferability of Stock Bonus Allocation. The right granted hereby to Xxxxxx to receive shares of McGrath RentCorp Common Stock under certain circumstances shall be non-transferrable by Xxxxxx other than by will or the laws of descent and distribution. McGrath RentCorp shall not be liable for the debts, contracts or engagements of Xxxxxx or his beneficiaries, and rights under this Program may not be taken in execution or by attachment or garnishment, or by any other legal or equitable proceeding; nor shall Xxxxxx or his beneficiaries have any right to assign, pledge or hypothecate any rights or benefits hereunder.

9.4 No Effect on Employment. Nothing contained in this Agreement shall confer upon Xxxxxx any right to continue in the employ of McGrath RentCorp (or its subsidiaries) or constituted any contract or agreement of employment.

9.5 Governmental Regulations. This Program, the grant of Stock Bonus Allocations and the issuance of Common Stock hereunder shall be subject to all applicable rules and regulations of governmental authorities. At the time of the issuance of any shares of Common Stock to Xxxxxx under this Program, and as a condition to the issuance of such shares, Xxxxxx shall give such representations and warranties in writing to McGrath RentCorp as its legal counsel shall deem appropriate to insure compliance with applicable securities laws and regulations. McGrath RentCorp may place upon the certificates evincing the shares of Common Stock being issued legends referring to restrictions on transfer as may be appropriate in connection with compliance with applicable securities laws and regulations.

10. STANDARD PROVISIONS.

10.1 Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given (i) on the date of service if delivered personally, (ii) on the date of transmission if sent by facsimile transmission with printed proof of electronic receipt, (iii) on the date of delivery if delivered by a courier service with proof of delivery, or (iv) on the third business day after mailing if mailed by first class mail, certified, return receipt requested, postage prepaid, to the following addresses:

If to McGrath RentCorp, then to: McGrath RentCorp
5700 Las Positas Road
Livermore, CA 94550
Attn: Corporate Secretary
Facsimile No.: 1-925-453-3200

With a copy to: Christopher Ream, Esq.
2600 El Camino Real, Suite 410
Palo Alto, CA 94306
Facsimile No.: 1-650-856-8448

If to Xxxxxx, then to: Xxxxxx Xxxxxx
McGrath RentCorp
5700 Las Positas Road
Livermore, CA 94550
Facsimile No.: 1-925-453-3200

10.2 Entire Agreement; Modification; Waiver. This Agreement constitutes the entire agreement between the parties pertaining to the subject matter contained herein and supersedes all prior and contemporaneous agreements, representations and understandings of the parties. No supplement, modification or amendment to this Agreement shall be binding unless executed in writing by the party to be charged. No waiver of any of the provisions of this Agreement shall be deemed, or shall constitute, a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing waiver. No waiver shall be binding unless executed in writing by the party making the waiver.

10.3 Remedies. The rights and remedies provided to any party herein shall be cumulative and in addition to any other or further rights or remedies available at law or in equity.

10.4 Disputes. All disputes, controversies and claims arising out of or relating to this Agreement, or the interpretation, construction, performance or breach hereof shall be settled by arbitration in accordance with the rules of the American Arbitration Association, regardless of whether one of the parties fails or refuses to participate; and such arbitration shall take place in Alameda County, State of California. Judgment upon the award rendered by the arbitrator may be entered in any Court having jurisdiction thereof. Notwithstanding the foregoing, either party hereby may bring an action in the Superior Court of the State of California in and for Alameda County for injunctive relief. In the event any court action is instituted, or a referral is made to arbitration, to settle any dispute arising under this Agreement or to enforce any right or obligation hereunder, the prevailing party shall be entitled to recover its or his attorney fees and other expenses associated therewith.

10.5 Severability. In case any one or more of the provisions contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, the meaning of such provision shall be construed (to the extent feasible) so as to render the provisions valid and enforceable, and if no feasible construction would save the provision, its invalidity, illegality or unenforceability shall not affect any other provision of this Agreement; rather this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

10.6 Governing Law. This Agreement shall be construed in accordance with, and governed by, the laws of the State of California as applied to contracts that are executed and performed entirely in California.

10.7 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall be constitute one and the same instrument.

IN WITNESS WHEREOF, this Agreement has been executed and delivered as of the _____ day of November, 2001, by the undersigned Chairman of the Board and Chief Executive Officer of McGrath RentCorp, thereunto duly authorized by the Board of Directors of said corporation, and by Xxxxxx.

MCGRATH RENTCORP

BY

ROBERT P. MCGRATH, CHAIRMAN OF THE BOARD
AND CHIEF EXECUTIVE OFFICER

XXXXXXX XXXXXX

Exhibit 10.6

MCGRATH RENTCORP

ENVIROPLEX STOCK EXCHANGE AGREEMENT

JULY 2, 2001

Table of Contents

Exhibits

MCGRATH RENTCORP

ENVIROPLEX STOCK EXCHANGE AGREEMENT

This Enviroplex Stock Exchange Agreement (the "Agreement") is made as of the 2nd day of July, 2001 by and between McGrath RentCorp, a California corporation (the "Company"), and each of the persons, severally and not jointly, whose names are listed on Exhibit A attached hereto (each an "Enviroplex Stockholder" and together the "Enviroplex Stockholders").

The parties hereby agree as follows:

1. Exchange of Stock.

1.1 Exchange of Stock. Subject to the terms and conditions of this Agreement, each Enviroplex Stockholder agrees to exchange at the Closing that number of shares of Common Stock of Enviroplex, Inc., a California corporation ("Enviroplex") indicated with respect to such Enviroplex stockholder on Exhibit A attached hereto, in consideration of the receipt of that number of shares of the Company's Common Stock indicated with respect to such Enviroplex stockholder on Exhibit A. Subject to the terms and conditions of this Agreement, the Company agrees to issue to each Enviroplex stockholder at the Closing that number of shares of the Company's Common Stock indicated with respect to such Enviroplex stockholder on Exhibit A in consideration of the number of shares of Enviroplex Common Stock indicated with respect to each such Enviroplex stockholder. The shares of Common Stock of the Company issued to the Enviroplex Stockholders pursuant to this Agreement shall be hereinafter referred to as the "McGrath Stock."

1.2 Closing. The exchange of shares of Enviroplex Common Stock for the McGrath Stock shall take place at the offices of Christopher Ream, Legal Counsel, 2600 El Camino Real, Suite 410, Palo Alto, California 94306, at 2:00 p.m., on July 2, 2001 (which time and place are designated as the "Closing"), or at such other time and place as the Company and the Enviroplex Stockholders shall mutually agree upon orally or in writing.

1.3 Deliverables. At the Closing, the Company shall deliver to each Enviroplex Stockholder those items specified in Section 6 below, and each Enviroplex Stockholder shall deliver to the Company those items specified in Section 7 below.

1.4 Tax Free Exchange. The parties hereto intend that the exchange of the Enviroplex Common Stock for McGrath Stock shall be tax free to the Enviroplex Stockholders; however, no representation or guaranty as to the tax treatment of the proposed transaction is being given by any party hereto.

2. Representations and Warranties of the Company. The Company hereby represents and warrants to each Enviroplex Stockholder that:

2.1 Organization, Good Standing and Qualification. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of California. The Company has all requisite corporate power and authority to execute and deliver this Agreement, to issue the McGrath Stock, and to carry out the provisions of this Agreement.

2.2 Authorization. All corporate action on the part of the Company, its officers, directors and shareholders necessary for the authorization, execution and delivery of this Agreement, the performance of all obligations of the Company hereunder, and the authorization, issuance and delivery of the McGrath Stock has been taken or will be taken prior to the Closing.

2.3 Valid Issuance of Securities. The McGrath Stock being issued to the Enviroplex Stockholders hereunder, when issued and delivered in accordance with the terms hereof for the consideration expressed herein, will be duly and validly issued, fully paid and nonassessable and free of restrictions on transfer other than restrictions on transfer under applicable state and federal securities laws. Subject in part to the truth and accuracy of each Enviroplex Stockholder's representations set forth in Section 3 of this Agreement, the offer, exchange and issuance of the McGrath Stock as contemplated by this Agreement are exempt from registration requirements of any applicable state and federal securities laws of the United States.

2.4 Disclosure. The Company's Common Stock is publicly traded and regulated by the Securities and Exchange Commission. Disclosures regarding the Company are contained in its Annual Report to Shareholders for the year 2000, its Proxy Statement mailed to shareholders of the Company with respect to the Company's May 30, 2001 Shareholders' Meeting, its Annual Report on Form 10-K for the year 2000 filed with the Securities and Exchange Commission, and its

Quarterly Report on form 10-Q for the quarter ended March 31, 2001 filed with the Securities and Exchange Commission. Further information regarding the Company has been made available from time to time in press releases to the public and in quarterly "Earnings Conference Calls" open to the public.

2.5 Brokers or Finders. The Company has no contract, arrangement or understanding with any broker, finder or other similar person with respect to the transactions contemplated by this Agreement.

2.6 No Representation as to Value. The Company makes no representation as to either the value of the McGrath Stock or the value of the shares of Enviroplex Common Stock being exchanged therefor.

2.7 No Further Agreement. The Company has not entered into any agreement with, or made any promises to, or received promises from, either of the Enviroplex Stockholders or any other person with respect to the possible disposition of any shares of Enviroplex Common Stock which will still be held after the Closing by either of the Enviroplex Stockholders.

3. Representations and Warranties of the Enviroplex Stockholders. Each Enviroplex Stockholder hereby represents and warrants to the Company, as to himself and not as to other Enviroplex Stockholders, that:

3.1 Authorization. Such Enviroplex Stockholder has full power and authority to enter into this Agreement and to perform his obligations hereunder. The Enviroplex Stockholder owns the shares of Enviroplex Common Stock to be transferred to the Company pursuant to this Agreement free and clear of all liens and encumbrances, holds full right, title, and interest therein, and no other person holds any interest in such shares of stock.

3.2 Disclosure of Information. Such Enviroplex Stockholder has received in a reasonable time prior to the date hereof the Company's Annual Report to Shareholders for the year 2000, the Company's Proxy Statement mailed to shareholders of the Company with respect to the Company's May 30, 2001 Shareholders' Meeting, the Company's Annual Report on Form 10-K for the year 2000 filed with the Securities and Exchange Commission, and the Company's Quarterly Report on form 10-Q for the quarter ended March 31, 2001 filed with the Securities and Exchange Commission. The Enviroplex Stockholder is aware that further information regarding the Company has been made from time to time in press releases to the public and in quarterly "Earnings Conference Calls" open to the public, and has had an opportunity to review the same. The Enviroplex Stockholder believes he has received all the information he considers necessary or appropriate for deciding whether to acquire the McGrath Stock. The Enviroplex Stockholder further represents that he has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the McGrath Stock as well as the business, properties, prospects and financial condition of the Company, and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify the accuracy of any information furnished to such Enviroplex Stockholder. The Enviroplex Stockholder has not relied upon any information regarding the transactions contemplated by this Agreement other than as set forth in this Agreement.

3.3 Acquiring Entirely for Own Account. This Agreement is made with the Enviroplex Stockholder in reliance upon the Enviroplex Stockholder's representation to the Company, which by the Enviroplex Stockholder's execution of this Agreement he hereby confirms, that the McGrath Stock to be acquired by him will be acquired for investment for his own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that the Enviroplex Stockholder has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, the Enviroplex Stockholder further represents that he does not presently have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation to such person or to any third person, with respect to any of the McGrath Stock.

3.4 Restricted Securities. The Enviroplex Stockholder understands that the McGrath Stock has not been, and will not be, registered under the Securities Act of 1933 by reason of a specific exemption from the registration provisions of the Securities Act which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of the Enviroplex Stockholder's representations as expressed herein. The Enviroplex Stockholder understands that the McGrath Stock are "restricted securities" under applicable U.S. federal and state securities laws and regulations, and that pursuant to these laws, the Enviroplex Stockholder must hold the McGrath Stock unless they are registered with the Securities and Exchange Commission and qualified by state authorities or an exemption from such registration and qualification requirements is available. The Enviroplex Stockholder acknowledges that the Company has no obligation to register or qualify the McGrath Stock for resale. The Enviroplex Stockholder further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the McGrath Stock, and requirements relating to the Company which are

outside of the Enviroplex Stockholder's control and which the Company is under no obligation, and may not be able, to satisfy.

3.5 Legends. The Enviroplex Stockholder understands that the certificates evincing the McGrath Stock may bear the following legend:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISTRIBUTION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933."

3.6 Brokers or Finders. The Enviroplex Stockholder has no contract, arrangement or understanding with any broker, finder or other similar person with respect to the transactions contemplated by this Agreement.

3.7 No Representation as to Value. The Enviroplex Stockholder makes no representation as to the value of the shares of Enviroplex Common Stock being exchanged for the McGrath Stock.

3.8 No Further Agreement. The Enviroplex Stockholder has not entered into any agreement with, or made any promises to, or received promises from, either the Company or any other person with respect to the possible disposition of any shares of Enviroplex Common Stock which will still be held after the Closing by either of the Enviroplex Stockholders.

3.9 Independent Advice. The Company has recommended that the Enviroplex Stockholders obtain independent legal, tax and accounting advice with respect to the exchange contemplated by this Agreement; and the Enviroplex Stockholder has had an opportunity to retain and obtain advice from his own legal, tax and accounting counsel and advisors.

4. Conditions of the Enviroplex Stockholders' Obligations at Closing. The obligations of each Enviroplex Stockholder to the Company under this Agreement are subject to the fulfillment, on or before the Closing, of each of the following conditions, unless otherwise waived (the waiver of any of the following conditions shall not be effective against any Enviroplex Stockholder who does not consent in writing thereto):

4.1 Agreement Signed; Others to Close. This Agreement shall have been duly executed and delivered by the Company and by all the Enviroplex Stockholders, and all the Enviroplex Stockholders shall close the transaction concurrently.

4.2 Representations and Warranties. The representations and warranties of the Company contained in Section 2 shall be true and correct in all material respects on and as of the Closing, with the same effect as though such representations and warranties had been made on and as of the date of the Closing. No representation or warranty of the Company contained in this Agreement when read together contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein or therein not misleading in light of the circumstances under which they were made.

4.3 All Deliverables Ready. All documents and other items to be delivered to the Enviroplex Stockholders at the Closing as specified in Section 6 below, shall be duly executed, ready for delivery to the Enviroplex Stockholders, and in form and substance reasonably satisfactory to the Enviroplex Stockholders.

5. Conditions of the Company's Obligations at Closing. The obligations of the Company to each Enviroplex Stockholder under this Agreement are subject to the fulfillment, on or before the Closing, of each of the following conditions, unless otherwise waived:

5.1 Agreement Signed. This Agreement shall have been duly executed and delivered by all of Enviroplex Stockholders, and all the Enviroplex Stockholders shall have satisfied all of the conditions of this Section 5 and shall be prepared to close the transaction.

5.2 Representations and Warranties. The representations and warranties of each Enviroplex Stockholder contained in Section 3 shall be true and correct in all material respects on and as of the Closing, with the same effect as though such representations and warranties had been made on and as of the Closing.

5.3 All Deliverables Ready. All documents and other items to be delivered to the Company at the Closing as specified in Section 7 below, shall be duly executed, ready for delivery to the Company, and in form and substance reasonably satisfactory to the Company's counsel.

6. Deliverables by the Company at Closing. At the Closing, the Company shall deliver to each of the Enviroplex Stockholders a certificate evincing the McGrath Stock being acquired by the Enviroplex Stockholder pursuant to this Agreement.

7. Deliverables by the Enviroplex Stockholders at Closing. At the Closing, each Enviroplex Stockholder shall deliver to the Company a certificate evincing the shares of Enviroplex Common Stock to be exchanged by the Enviroplex Stockholder for the McGrath Stock pursuant to this Agreement; together with an Assignment Separate From Certificate (Stock Power) providing for the transfer of said shares to the Company. In the event the certificate tendered by the Enviroplex Stockholder is for a number of shares greater than that to be transferred to the Company, the Company, the Enviroplex Stockholder and Enviroplex shall cooperate to ensure that Enviroplex issues back to the Enviroplex stockholder a certificate for the balance of the shares of Enviroplex Common Stock remaining after the transfer to the Company.

8. Standard Provisions.

8.1 Further Assurances. Each of the parties hereto shall execute and deliver such instruments and take such other actions as the other parties may reasonably request in order to carry out the intent of this Agreement.

8.2 Survival of Warranties. Unless otherwise set forth in this Agreement, the warranties, representations and covenants of the Company and the Enviroplex Stockholders contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement and the Closing.

8.3 Finder's Fee. Each party, severally and not jointly, represents that it neither is nor will be obligated for any finder's, broker's or similar fee or commission in connection with the transactions contemplated by this Agreement. Each Enviroplex Stockholder, severally and not jointly, agrees to indemnify and to hold harmless the Company and each of the other Enviroplex Stockholders from any liability for any commission or compensation in the nature of a finder's, broker's or similar fee (and the costs and expenses of defending against such liability or asserted liability) for which such Enviroplex Stockholder is responsible. The Company agrees to indemnify and hold harmless each Enviroplex Stockholder from any liability for any commission or compensation in the nature of a finder's, broker's or similar fee (and the costs and expenses of defending against such liability or asserted liability) for which the Company or any of its officers, employees or representatives is responsible.

8.4 Fees and Expenses. Each party shall pay its own fees and expenses incurred with respect to this Agreement and the transactions contemplated hereby.

8.5 Delays or Omissions. No delay or omission to exercise any right, power or remedy accruing to any party under this Agreement, upon any breach or default of any other party under this Agreement, shall impair any such right, power or remedy of such non-breaching or non-defaulting party nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement or by law or otherwise afforded to any party, shall be cumulative and not alternative.

8.6 Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto pertaining to the subject matter hereof, and any and all other written or oral agreements relating to the subject matter hereof existing between the parties hereto are expressly canceled.

8.7 Construction and Titles. This Agreement has been negotiated between the parties hereto, and the language hereof shall not be construed for or against any party. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement. A reference herein to any section shall be deemed to include a reference to every subsection thereof. All pronouns contained herein, and any variations thereof, shall be deemed to refer to the masculine, feminine or neuter, singular or plural, as the identity of the parties hereto may require.

8.8 Severability. If any provision of this Agreement is held to be unenforceable under applicable law, it shall be interpreted, to the extent possible, to enhance its enforceability in order to achieve the intent of the parties to this Agreement. But if no feasible construction would save the provision, the parties agree to renegotiate such provision in good faith. In the event the parties cannot reach a mutually agreeable and enforceable replacement for such provision, its invalidity, illegality or unenforceability shall not affect any other provision of this Agreement; rather this Agreement shall be

construed as if such invalid, illegal or unenforceable provision had never been contained herein; provided, however, no such severability shall be effective if it materially changes the economic benefit of this Agreement to any party. The invalidity of any provision of this Agreement as applied to certain circumstances shall not affect the validity or enforceability of such provision as applied to other circumstances or any other provisions of this Agreement.

8.9 Governing Law. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto are to be construed in accordance with and governed by the laws of the State of California (as permitted by Section 1646.5 of the California Civil Code or any similar successor provision), without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the State of California to the rights and duties of the parties hereto.

8.10 Confidentiality. Each party hereto agrees that it shall at all times keep confidential and not divulge, furnish or make accessible to anyone any confidential information, knowledge or data concerning or relating to the business or financial affairs of any other party hereto to which such party has been or shall become privy by reason of this Agreement, discussions or negotiations relating to the transactions contemplated hereby or thereby, except with the prior written consent of such other party.

8.11 Attorney's Fees. If any action at law or in equity (including arbitration) is instituted to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

8.12 Mediation; Arbitration. Any controversy or claim arising out of or relating to this Agreement, or the interpretation or breach hereof, shall be referred to a neutral mediator agreed upon by the parties or selected pursuant to the rules of Endispute, Inc. Each party shall bear its own expenses and one-half of the expenses of the mediator. If after 90 days of the commencement of mediation the controversy or claim has not been resolved, either party may commence arbitration proceedings in Palo Alto, California in accordance with the Commercial Arbitration Rules of the American Arbitration Association. If the amount in controversy is $1,000,000 or more, the arbitration shall be held before three arbitrators; otherwise, it shall be before a single arbitrator. In any such arbitration proceedings, each party shall bear its own costs and expenses and one-half of the expenses of the arbitrator(s); provided that the arbitrator(s) shall have the authority, should he, she or they determine it appropriate under the circumstances, to award reasonable attorneys fees and costs to the prevailing party. Judgment upon the award rendered by the arbitrator(s) shall be final and binding and may be entered in any court having jurisdiction thereof.

8.13 Corporate Securities Law. THE SALE OF THE SECURITIES WHICH ARE THE SUBJECT OF THIS AGREEMENT HAS NOT BEEN QUALIFIED WITH THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA AND THE ISSUANCE OF THE SECURITIES OR THE PAYMENT OR RECEIPT OF ANY PART OF THE CONSIDERATION THEREFOR PRIOR TO THE QUALIFICATION IS UNLAWFUL, UNLESS THE SALE OF SECURITIES IS EXEMPT FROM THE QUALIFICATION BY SECTION 25100, 25102 OR 25105 OF THE CALIFORNIA CORPORATIONS CODE. THE RIGHTS OF ALL PARTIES TO THIS AGREEMENT ARE EXPRESSLY CONDITIONED UPON THE QUALIFICATION BEING OBTAINED UNLESS THE SALE IS SO EXEMPT.

8.14 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

The parties have executed this Enviroplex Stock Exchange Agreement as of the date first written above by the undersigned, who have been duly authorized to do so.

COMPANY:

MCGRATH RENTCORP

Address:

5700 Las Positas Road
Livermore, CA 94550

By: _____
Dennis C. Kakures, President

By: _____
Randle F. Rose, Secretary

ENVIROPLEX STOCKHOLDERS:

Address:

988 Doug Mitchell Place
Stockton, CA 95209

_____
JOE G. SUBLETT

Address:

977 Stenton Way
Galt, CA 95632

_____
DONALD M. CURTIS

EXHIBIT A

SCHEDULE OF ENVIROPLEX STOCKHOLDERS

Name of Enviroplex Stockholder	Shares of Enviroplex Common Stock to be Exchanged	Shares of McGrath RentCorp Common Stock to be Received
Joe G. Sublett	7,000	77,605
Donald M. Curtis	700	7,761

EXHIBIT B-1
TO
MCGRATH RENTCORP
ENVIROPLEX STOCK EXCHANGE AGREEMENT

SPOUSAL CONSENT

The undersigned does hereby certify that she is the spouse of Joe G. Sublett, the individual who executed the above Enviroplex Stock Exchange Agreement. I consent to and agree with the transaction contemplated in the Agreement by which shares of Common Stock of Enviroplex, Inc. owned by my husband will be exchanged for shares of Common Stock of McGrath RentCorp. I agree to execute and deliver such documents as may be necessary to carry out the intent of this Agreement.

Dated: July 2, 2001.

RITA A. SUBLETT

EXHIBIT B-2
TO
MCGRATH RENTCORP
ENVIROPLEX STOCK EXCHANGE AGREEMENT

SPOUSAL CONSENT

The undersigned does hereby certify that she is the spouse of Donald M. Curtis, the individual who executed the above Enviroplex Stock Exchange Agreement. I consent to and agree with the transaction contemplated in the Agreement by which shares of Common Stock of Enviroplex, Inc. owned by my husband will be exchanged for shares of Common Stock of McGrath RentCorp. I agree to execute and deliver such documents as may be necessary to carry out the intent of this Agreement.

Dated: July 2, 2001.

AURILLA A. CURTIS

TRANSITIONAL SERVICES AGREEMENT

TRANSITIONAL SERVICES AGREEMENT, dated as of December 20, 2001 but effective as of the Effective Date (as defined below), by and among, MCGRATH RENTCORP, a California corporation ("McGrath"), and Robert P. McGrath (the "Executive").

WHEREAS, McGrath and Tyco Acquisition Corp. 33, a Nevada corporation ("Acquisition"), have proposed to enter into an agreement and plan of merger dated as of the date hereof (the "Merger Agreement"), pursuant to which McGrath will merge (the "Merger") with and into Acquisition (references herein to the "Company" shall mean McGrath, prior to consummation of the Merger, and Acquisition, as successor to McGrath, following consummation of the Merger, as applicable).

WHEREAS, the Executive has served as the Chief Executive Officer of the Company and performs services of a unique nature for the Company.

WHEREAS, following the Merger, the Executive will no longer serve as the Chief Executive Officer of the Company, but the Company desires to retain and rely on the Executive for the performance of critical transitional services following the Merger, promoting continuity of management at the Company, assuring customers and other Company employees of stability at the Company and providing operational and strategic direction for the Company (the "Services").

WHEREAS, as described in this Agreement, the Company has determined to offer the Executive certain benefits while the Executive is employed by the Company, to provide an incentive to encourage the Executive to remain in the employ of the Company so that the Company may receive his continued dedication and to assure the continued availability of the Executive's advice and counsel to the Company during the period immediately following the completion of the Merger.

WHEREAS, as of the date hereof, the Executive and the Company have entered into a Confidentiality and Non-Competition Agreement (the "Confidentiality Agreement"), and the Company has agreed to provide the Executive with the benefits set forth herein as part of the consideration for the Executive entering into the Confidentiality Agreement.

WHEREAS, the Executive has agreed to continue to render services to the Company pursuant to the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the respective agreements of the parties contained herein, it is agreed as follows:

1. Definitions. The following terms shall have their respective meanings provided in this Section 1.

1.1 "Affiliate" shall mean any entity, directly or indirectly, controlled by, controlling or under common control with the Company or any corporation or other entity acquiring, directly or indirectly, all or substantially all the assets and business of the Company, whether by operation of law or otherwise.

1.2 "Successors and Assigns" shall mean, with respect to the Company, a corporation or other entity acquiring all or substantially all the assets and business of the Company (including this Agreement) whether by operation of law or otherwise.

2. Effective Date. The "Effective Date" of this Agreement shall be the date of the Effective Time under the Merger Agreement.

3. Retention Period. The Company hereby agrees to continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company, for the period commencing on the Effective Date and ending on the date three (3) months after the Effective Date or such earlier period as may be determined by the Company (the "Retention Period").

4. Terms of Employment.

(a) Position and Duties.

(1) During the Retention Period, the Executive shall provide the Services to the Company.

(2) Excluding any periods of sick leave or vacation to which the Executive is entitled, the Executive agrees to devote reasonable and customary

attention and time during the Retention Period to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. It shall not be a violation of this Agreement, however, for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement.

(b) Compensation.

(1) Base Salary. During the Retention Period, the Executive shall receive a base salary payable at the same monthly rate as he was receiving immediately prior to the Effective Date. The base salary shall be payable at such intervals as the Company customarily makes its payroll payments.

(2) Employee Benefits. During the Retention Period, the Executive shall be entitled to such employee benefits as are comparable in the aggregate to those provided to the Executive immediately prior to the Effective Date.

(3) Retention Bonus. In consideration of the Executive's performing services pursuant to this Agreement, the Executive shall receive $1,000,000 (the "Retention Bonus") within 30 days after the expiration of the Retention Period; provided, however, that if (i) the Executive is unable to complete the Retention Period due to death or disability, or (ii) the Company terminates the Executive's employment during the Retention Period for any reason other than as the result of the

Executive's commission or conviction of a felony or a guilty or nolo contendere plea by the Executive with respect thereto, the Retention Bonus shall be paid within 30 days after the date of such death or termination of employment due to disability.

5. Termination of Employment.

(a) COBRA Coverage. Upon the termination of the Executive's employment at the end of the Retention Period (or earlier if due to disability), the Executive may elect continuation coverage under Section 4980B of the Internal Revenue Code of 1986, as amended ("COBRA Coverage") at no cost to the Executive.

(b) Continued Health Coverage. Prior to the expiration the Executive's COBRA Coverage, the Company shall provide the Executive with assistance in selecting appropriate replacement medical and health insurance coverage and, to the extent that the coverage selected is comparable to the coverage provided under the Executive's COBRA Coverage, the Company shall pay the premiums for such coverage until the third anniversary of the Executive's termination of employment.

(c) Computer Support. During the period ending on the third anniversary of the Executive's termination of employment, the Company's information services department shall provide support services to the Executive on the same basis as such support services are provided to employees of the Company.

(d) No Other Severance. The payment of the Retention Bonus and the payments and benefits provided for in this Section 5 shall be in lieu of any other severance pay to which the Executive may be entitled under the Company' severance plan or any other plan, agreement or arrangement of the Company or any of its Affiliates.

6. Right of Repayment. In the event that the Executive should violate the Confidentiality Agreement, the Executive shall, upon request of the Company repay to the Company the Retention Bonus paid pursuant to Section 4(b)(3).

7. Notice. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed to have been duly given or made if and when delivered personally or by overnight courier to the parties at the following addresses or sent by electronic transmission, with confirmation received, to the facsimile numbers specified below:

If to the Company: McGrath RentCorp.
5700 Las Positas Road
Livermore, CA 94550
Attention: President

and

Tyco Acquisition Corp. 33
c/o Tyco International (US) Inc.
One Tyco Park
Exeter, NH 03833
Attention: President

If to Executive: Robert P. McGrath

with a copy to:

or at such other address as shall be indicated to either party in writing by like notice. Notice of change of address shall be effective only upon receipt.

8. Nature of Rights. Except as provided in Section 5(d), nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit, bonus, incentive or other plan or program provided by the Company or any Affiliate of the Company and for which the Executive may qualify, nor, except as explicitly provided herein, shall anything herein limit or reduce such rights as the Executive may have under any other agreements with the Company or any Affiliate of the Company. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan or program of the Company or any Affiliate of the Company shall be payable in accordance with such plan or program, except as explicitly modified by this Agreement.

9. Modification, Waiver; Remedies Cumulative. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the Executive and the

Company. No waiver by any party hereto at any time of any breach by any other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreement or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by any party which are not expressly set forth in this Agreement.

10. Successors; Binding Agreement.

(a) This Agreement shall not be assigned by operation of law or otherwise, except that all or any of the rights of the Company and its Affiliates hereunder may be assigned to and enforced by the Company and its Affiliates; provided that no such assignment shall relieve the assigning party of its obligations hereunder. This Agreement shall be binding upon and shall inure to the benefit of the Company and its Successors and Assigns. The Company shall require its Successors and Assigns to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place.

(b) Neither this Agreement nor any right or interest hereunder shall be assignable or transferable by the Executive, his beneficiaries or legal representatives, except by will or by the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal personal representative.

(c) This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement, except that the Affiliates of the Company are intended third-party beneficiaries of this Agreement.

11.Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of California.

12.Entire Agreement. Subject to the next sentence, this Agreement constitutes the entire agreement between the parties hereto, and supersedes all prior agreements, if any, understandings and arrangements, oral or written, between the parties hereto, with respect to the subject matter hereof, provided however, that this Agreement does not supercede the Confidentiality Agreement.

13.Counterparts. This Agreement may be executed in counterparts, and by the different parties hereto in separate counterparts (by facsimile or original signature), each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

14.WAIVER OF JURY TRIAL. EACH OF MCGRATH AND THE EXECUTIVE HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ALL RIGHTS TO TRIAL BY JURY IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM (WHETHER BASED UPON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY.

15. Termination. This Agreement shall terminate and be of no further force and effect if the Merger Agreement shall terminate without the Merger having been consummated.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

MCGRATH RENTCORP

By:

Name:
Title:

Robert P. McGrath

CONFIDENTIALITY AND NON-COMPETITION AGREEMENT

CONFIDENTIALITY AND NON-COMPETITION AGREEMENT, dated as of December 20, 2001 but effective as of the Effective Time (as defined below), by and among, MCGRATH RENTCORP ("McGrath"), TYCO ACQUISITION CORP. 33 ("Acquiror"), a direct, wholly-owned subsidiary of Tyco International Ltd. ("Tyco"), and Robert P. McGrath ("Shareholder").

WHEREAS, McGrath and Acquiror have proposed to enter into a merger agreement dated as of the date hereof (the "Merger Agreement") pursuant to which McGrath will merge with and into Acquiror, with the surviving corporation being a wholly-owned subsidiary of Tyco; and

WHEREAS, Shareholder is a founding and substantial shareholder of McGrath and will receive considerable monetary and other benefits by reason of the consummation of the transactions contemplated by the Merger Agreement; and

WHEREAS, McGrath and Acquiror wish to preserve the confidential information of McGrath and to protect against Shareholder using his skills, knowledge, experience, ideas and influence for the benefit of the competitors of McGrath and its affiliates; and

WHEREAS, Shareholder is willing to enter into an agreement to provide such protection to McGrath, its successor and affiliates upon the terms and conditions set forth in this Agreement and understands that Shareholder's agreement to the terms set forth herein is a critical inducement to the entering into the Merger Agreement by the parties thereto; and

WHEREAS, as a condition of its entering into the Merger Agreement, Acquiror has requested Shareholder to agree to enter into this Agreement, and Shareholder is executing this Agreement as an inducement to Acquiror to enter into and execute the Merger Agreement.

NOW, THEREFORE, in consideration of the execution and delivery by Acquiror of the Merger Agreement and the mutual covenants, conditions and agreements contained herein and therein, and intending to be legally bound hereby, the parties agree as follows:

1. Definitions.

"Business" means (i) the business of designing, manufacturing, refitting, supplying, selling, leasing and renting modular buildings and accessories and (ii) the business of renting, leasing and selling electronic testing and measurement equipment, in each case as now or hereafter (during the Non-Competition Period) conducted by the Company or any of its affiliates.

"Business Affiliate" means any affiliate of the Company (including Tyco and its subsidiaries) now or hereafter engaged in the Business.

"Company" means McGrath and Acquiror as successor to McGrath following the Merger and includes their respective subsidiaries.

"Competing Business" mean any business engaged in any of the activities constituting or included within the Business.

"Confidential information" means and includes the following items that relate to or are connected with the Business: (i) the name and address of any customer, vendor or affiliate of the Company or any Business Affiliate and any information concerning the transactions or relations of any customer, vendor or affiliate of the Company or any Business Affiliate with the Company or any Business Affiliate or any of its shareholders, directors, officers, employees, agents, consultants, representatives and/or personnel; (ii) any information concerning any product, technology or procedure employed by the Company or any Business Affiliate but not generally known to its customers, vendors or competitors, or under development by or being tested by the Company or any Business Affiliate but not at the time offered generally to its customers or vendors; (iii) any information relating to computer software or systems used by the Company or any Business Affiliate other than off-the-shelf software and systems furnished by third party vendors; (iv) any business plans, budgets, advertising or marketing plans, pricing or marketing methods, sales margins, cost of goods, cost of material, capital structure, operating results, or borrowing arrangements of the Company or any Business Affiliate; (v) any information belonging to customers, vendors or affiliates of the Company or any Business Affiliate or any other person which the Company or any

Business Affiliate has agreed to hold in confidence; (vi) know-how, trade secrets, technical data, designs, processes and formulae of the Company or any Business Affiliate; (vii) any other information which is generally regarded as confidential or proprietary; and (viii) all written, graphic, electronic and other materials and records relating to any of the foregoing. Information that is not novel or copyrighted or patented may nonetheless be proprietary information; provided, however, that "confidential information" does not include information generally available to and known by the public (other than by reason of a breach of this Agreement).

"Effective Time" means the effective time of the merger contemplated by the Merger Agreement.

"Non-Competition Period" means the period beginning on the date of the Effective Time and ending on the fifth anniversary of that date.

"Territory" means the United States of America.

2. Acknowledgement. Shareholder acknowledges, as the basis for his covenants and agreements contained in this Agreement:

(i) the accuracy of each of the Recitals above;

(ii) that the Business is intensely competitive and Shareholder's former and current position with the Company has exposed, and will continue to expose, Shareholder to knowledge and possession of confidential information of the Company and/or its Business Affiliates;

(iii) that the confidential information constitutes a sensitive and protectable business interest of the Company and/or its Business Affiliates, as the case may be;

(iv) that the direct and indirect disclosure of any such confidential information to existing or potential competitors of the Company and its Business Affiliates, as well as the engaging by Shareholder in any of the other activities prohibited by this Agreement, would place the Company and its Business Affiliates at a competitive disadvantage and would do damage, monetary or otherwise, to the operations, goodwill, prospects and competitive position of the Company and its Business Affiliates; and

(v) that Shareholder's engaging in any of the activities prohibited by this Agreement would constitute improper appropriation and/or use of and harm to the tangible and intangible property of the Company and its Business Affiliates.

3. Confidentiality.

(a) Shareholder shall not, directly or indirectly, whether individually, as a director, stockholder, owner, partner, employee, principal or agent of any business, or in any other capacity, make known, disclose, furnish, make available or utilize any of the confidential information of the Company or any Business Affiliate other than in the proper performance of his duties as an officer, employee or consultant of the Company or such Business Affiliate.

(b) Nothing in this Agreement shall prevent Shareholder from disclosing any confidential information as required by a court of competent jurisdiction or other administrative or legislative body; provided that prior to disclosing any of the confidential information to a court or other administrative or legislative body, Shareholder shall promptly notify the Company or its Business Affiliate, as the case may be, shall cooperate with the Company or such Business Affiliate in obtaining a protective order or other means of protecting the confidentiality of the confidential information and shall disclose only that information that is legally required to be disclosed. The Company shall reimburse Shareholder for his reasonable expenses involved in such cooperation and, if such cooperation requires more than 10 hours of Shareholder's time, the Company and Shareholder shall agree on appropriate remuneration to Shareholder.

(c) Shareholder agrees promptly to return all confidential information in his possession, including all photocopies, extracts, summaries, memoranda, documents, data, records, notes, designs, drawings, and other written information, samples and models and any such information stored electronically on tapes, computer disks or in any other manner, to the Company at any time upon request by the Company or to or at the request of any Business Affiliate, as the case may be.

4. Non-Competition.

During the Non-Competition Period, Shareholder shall not, directly or indirectly, own, manage, operate, join, control, participate in, invest in or otherwise be connected or associated in a like manner with any Competing Business in the Territory, in any manner, including as an officer, director, employee, partner, consultant, advisor, proprietor, manager, trustee or investor; provided, however, that nothing contained in this Agreement shall prevent Shareholder from owning less than five percent (5%) of the voting stock of a publicly held corporation for investment purposes.

5. Non-Solicitation.

During the Non-Competition Period, Shareholder will not, directly or indirectly, for his benefit or for the benefit of any other person, firm or entity or otherwise:

(i) persuade or seek to persuade any customer of the Company or any Business Affiliate to cease to do business or to reduce the amount of business which the customer has customarily done or contemplates doing with the Company or any Business Affiliate, whether or not the relationship between the Company or any Business Affiliate and such customer, supplier, or independent contractor was originally established in whole or in part by the efforts of Shareholder;

(ii) seek to employ or engage, or assist anyone else to seek to employ or engage, any person who, at the relevant time, is in the employ of the Company or any Business Affiliate, or, as an independent contractor provides material engineering, marketing, sales, financial or management consulting services in connection with the business of the Company or any Business Affiliate; or

(iii) interfere in any manner in the relationship of the Company or any Business Affiliate with any of its customers, suppliers, or independent contractors, whether or not the relationship between the Company or any Business Affiliate and such customer, supplier, or independent contractor was originally established in whole or in part by the efforts of Shareholder.

6. Non-Disparagement.

During the Non-Competition Period, Shareholder will not, directly or indirectly, for his benefit or for the benefit of any other person, firm or entity or otherwise:

(i) make any statements or comments of a defamatory or disparaging nature to third parties regarding the Company or any Business Affiliate or its or their officers, directors, personnel, products or services; or

(ii) take any action which is intended, or would reasonably be expected, to harm the Company or any Business Affiliate or its reputation or which would reasonably be expected to lead to unwanted or unfavorable publicity to the Company or any Business Affiliate.

7. Other Obligations. The obligations of Shareholder under this Agreement are in addition to, and not in derogation of, any other obligations or duties that Shareholder may have or owe towards the Company or any Business Affiliate, including, without limitation, pursuant to any employment agreement or arrangement or by law as a present or former officer and/or director of the Company.

8. Specific Performance. Shareholder acknowledges that the Company and its Business Affiliates would sustain irreparable injury in the event of a violation by Shareholder of any of the provisions of this Agreement, and by reason thereof Shareholder consents and agrees that if Shareholder violates any of the provisions of this Agreement, in addition to any other remedies available, the Company or its Business Affiliate, as the case may be, shall be entitled to a decree specifically enforcing such provisions, and shall be entitled to a temporary and permanent injunction restraining Shareholder from committing or continuing any such violation, from any court of competent jurisdiction, without the necessity of proving actual damages, posting any bond, or seeking arbitration in any forum.

9. Enforceability. Shareholder acknowledges and agrees that due to the uniqueness of his role with the Company, his services and position, the nature of the confidential information he possesses or will possess and the benefits that he will receive by reason of the transaction contemplated by the Merger Agreement, the covenants set forth herein are reasonable and necessary for the protection of the business and goodwill of the Company and its Business Affiliates. Nevertheless, in the event that any court of competition

jurisdiction determines that any provisions of this Agreement are unreasonable in respect of its geographic boundaries, scope or term, such court is empowered and authorized to amend or modify the provisions of this Agreement to the minimum extent necessary in order to render such provisions valid, lawful and enforceable. Should any provision of this Agreement be held or declared invalid, unlawful or unenforceable, such

invalidity, unlawfulness or unenforceability shall not in any way affect the validity, lawfulness or enforceability of any other provision of this Agreement.

10. Entire Agreement. This Agreement sets forth the entire agreement between the parties with respect to its subject matter and merges and supersedes all prior discussions, agreements and understandings of every kind and nature between any of them and neither party shall be bound by any term or condition other than as expressly set forth or provided for in this Agreement. This Agreement may not be changed or modified nor may any of its provisions be waived, except by an agreement in writing, signed by the parties hereto.

11. Waiver. The failure of the Company or any Business Affiliate to enforce any of its terms, provisions or covenants shall not be construed as a waiver of the same or of the right of the Company or such Business Affiliate to enforce the same. Waiver by the Company or any Business Affiliate of any breach or default by Shareholder of any term or provision of this Agreement shall not operate as a waiver of any other breach or default.

12. Notices. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed to have been duly given or made if and when delivered personally or by overnight courier to the parties at the following addresses or sent by electronic transmission, with confirmation received, to the facsimile numbers specified below:

If to the Company:	McGrath RentCorp. 5700 Las Positas Road Livermore, CA 94550 Attention: President
If to Acquiror:	Tyco Acquisition Corp. 33 c/o Tyco International (US) Inc. One Tyco Park Exeter, NH 03833 Attention: President
If to Shareholder:	Robert P. McGrath #2 Sixth Ave San Francisco, CA 9418
with a copy to:	Morrison & Foerster LLP 425 Market Street San Francisco, CA 94105 Attention: Walter Stella, Esq.

or at such other address as shall be indicated to either party in writing by like notice. Notice of change of address shall be effective only upon receipt.

13. Successors and Assigns. This Agreement shall inure to the benefit of, and shall be enforceable by, the Company, any Business Affiliate and their respective successors and assigns.

14. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to conflicts of law principles.

15. Headings. The section headings contained herein are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

16. Counterparts. This Agreement may be executed in counterparts (by original or facsimile signature), each of which shall be deemed an original for all purposes but which, together, shall constitute one and the same instrument.

17. Effectiveness. This Agreement, and all rights and obligations of the parties hereunder, shall become effective at the Effective Time and shall terminate if the Merger Agreement is terminated in accordance with its terms without consummation of the offer and merger transactions contemplated thereby.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

MCGRATH RENTCORP

By: _____

Name:
Title:

TYCO ACQUISITION CORP. 33

By: _____

Name:
Title:

SHAREHOLDER

_____

Name: Robert P. McGrath

Exhibit 10.9

CONFIDENTIALITY AND NON-COMPETITION AGREEMENT

CONFIDENTIALITY AND NON-COMPETITION AGREEMENT, dated as of December 20, 2001 but effective as of the Effective Time (as defined below), by and among, MCGRATH RENTCORP ("McGrath"), TYCO ACQUISITION CORP. 33 ("Acquiror"), a direct, wholly-owned subsidiary of TYCO INTERNATIONAL LTD. ("Tyco"), and Joan M. McGrath ("Shareholder").

WHEREAS, McGrath and Acquiror have proposed to enter into a merger agreement dated as of the date hereof (the "Merger Agreement") pursuant to which McGrath will merge with and into Acquiror, with the surviving corporation being a wholly-owned subsidiary of Tyco; and

WHEREAS, Shareholder is a founding and substantial shareholder of McGrath and will receive considerable monetary and other benefits by reason of the consummation of the transactions contemplated by the Merger Agreement; and

WHEREAS, McGrath and Acquiror wish to preserve the confidential information of McGrath and to protect against Shareholder using her skills, knowledge, experience, ideas and influence for the benefit of the competitors of McGrath and its affiliates; and

WHEREAS, Shareholder is willing to enter into an agreement to provide such protection to McGrath, its successor and affiliates upon the terms and conditions set forth in this Agreement and understands that Shareholder's agreement to the terms set forth herein is a critical inducement to the entering into the Merger Agreement by the parties thereto; and

WHEREAS, as a condition of its entering into the Merger Agreement, Acquiror has requested Shareholder to agree to enter into this Agreement, and Shareholder is executing this Agreement as an inducement to Acquiror to enter into and execute the Merger Agreement.

NOW, THEREFORE, in consideration of the execution and delivery by Acquiror of the Merger Agreement and the mutual covenants, conditions and agreements contained herein and therein, and intending to be legally bound hereby, the parties agree as follows:

1. Definitions.

"Business" means (i) the business of designing, manufacturing, refitting, supplying, selling, leasing and renting modular buildings and accessories and (ii) the business of renting, leasing and selling electronic testing and measurement equipment, in each case as now or hereafter (during the Non-Competition Period) conducted by the Company or any of its affiliates.

"Business Affiliate" means any affiliate of the Company (including Tyco and its subsidiaries) now or hereafter engaged in the Business.

"Company" means McGrath and Acquiror as successor to McGrath following the Merger and includes their respective subsidiaries.

"Competing Business" mean any business engaged in any of the activities constituting or included within the Business.

"Confidential information" means and includes the following items that relate to or are connected with the Business: (i) the name and address of any customer, vendor or affiliate of the Company or any Business Affiliate and any information concerning the transactions or relations of any customer, vendor or affiliate of the Company or any Business Affiliate with the Company or any Business Affiliate or any of its shareholders, directors, officers, employees, agents, consultants, representatives and/or personnel; (ii) any information concerning any product, technology or procedure employed by the Company or any Business Affiliate but not generally known to its customers, vendors or competitors, or under development by or being tested by the Company or any Business Affiliate but not at the time offered generally to its customers or vendors; (iii) any information relating to computer software or systems used by the Company or any Business Affiliate other than off-the-shelf software and systems furnished by third party vendors; (iv) any business plans, budgets, advertising or marketing plans, pricing or marketing methods, sales margins, cost of goods, cost of material, capital structure, operating results, or borrowing arrangements of the Company or any Business Affiliate; (v) any information belonging to customers, vendors or affiliates of the Company or any Business Affiliate or any other person which the Company or any

Business Affiliate has agreed to hold in confidence; (vi) know-how, trade secrets, technical data, designs, processes and formulae of the Company or any Business Affiliate; (vii) any other information which is generally regarded as confidential or proprietary; and (viii) all written, graphic, electronic and other materials and records relating to any of the foregoing. Information that is not novel or copyrighted or patented may nonetheless be proprietary information; provided, however, that "confidential information" does not include information generally available to and known by the public (other than by reason of a breach of this Agreement).

"Effective Time" means the effective time of the merger contemplated by the Merger Agreement.

"Non-Competition Period" means the period beginning on the date of the Effective Time and ending on the fifth anniversary of that date.

"Territory" means the United States of America.

2. Acknowledgement. Shareholder acknowledges, as the basis for her covenants and agreements contained in this Agreement:

(i) the accuracy of each of the Recitals above;

(ii) that the Business is intensely competitive and Shareholder's former and current position with the Company has exposed, and will continue to expose, Shareholder to knowledge and possession of confidential information of the Company and/or its Business Affiliates;

(iii) that the confidential information constitutes a sensitive and protectable business interest of the Company and/or its Business Affiliates, as the case may be;

(iv) that the direct and indirect disclosure of any such confidential information to existing or potential competitors of the Company and its Business Affiliates, as well as the engaging by Shareholder in any of the other activities prohibited by this Agreement, would place the Company and its Business Affiliates at a competitive disadvantage and would do damage, monetary or otherwise, to the operations, goodwill, prospects and competitive position of the Company and its Business Affiliates; and

(v) that Shareholder's engaging in any of the activities prohibited by this Agreement would constitute improper appropriation and/or use of and harm to the tangible and intangible property of the Company and its Business Affiliates.

3. Confidentiality.

(a) Shareholder shall not, directly or indirectly, whether individually, as a director, stockholder, owner, partner, employee, principal or agent of any business, or in any other capacity, make known, disclose, furnish, make available or utilize any of the confidential information of the Company or any Business Affiliate other than in the proper performance of her duties as an officer, employee or consultant of the Company or such Business Affiliate.

(b) Nothing in this Agreement shall prevent Shareholder from disclosing any confidential information as required by a court of competent jurisdiction or other administrative or legislative body; provided that prior to disclosing any of the confidential information to a court or other administrative or legislative body, Shareholder shall promptly notify the Company or its Business Affiliate, as the case may be, shall cooperate with the Company or such Business Affiliate in obtaining a protective order or other means of protecting the confidentiality of the confidential information and shall disclose only that information that is legally required to be disclosed. The Company shall reimburse Shareholder for her reasonable expenses involved in such cooperation and, if such cooperation requires more than 10 hours of Shareholder's time, the Company and Shareholder shall agree on appropriate remuneration to Shareholder.

(c) Shareholder agrees promptly to return all confidential information in her possession, including all photocopies, extracts, summaries, memoranda, documents, data, records, notes, designs, drawings, and other written information, samples and models and any such information stored electronically on tapes, computer disks or in any other manner, to the Company at any time upon request by the Company or to or at the request of any Business Affiliate, as the case may be.

4. Non-Competition.

During the Non-Competition Period, Shareholder shall not, directly or indirectly, own, manage, operate, join, control, participate in, invest in or otherwise be connected or associated in a like manner with any Competing Business in the Territory, in any manner, including as an officer, director, employee, partner, consultant, advisor, proprietor, manager, trustee or investor; provided, however, that nothing contained in this Agreement shall prevent Shareholder from owning less than five percent (5%) of the voting stock of a publicly held corporation for investment purposes.

5. Non-Solicitation.

During the Non-Competition Period, Shareholder will not, directly or indirectly, for her benefit or for the benefit of any other person, firm or entity or otherwise:

(i) persuade or seek to persuade any customer of the Company or any Business Affiliate to cease to do business or to reduce the amount of business which the customer has customarily done or contemplates doing with the Company or any Business Affiliate, whether or not the relationship between the Company or any Business Affiliate and such customer, supplier, or independent contractor was originally established in whole or in part by the efforts of Shareholder;

(ii) seek to employ or engage, or assist anyone else to seek to employ or engage, any person who, at the relevant time, is in the employ of the Company or any Business Affiliate, or, as an independent contractor provides material engineering, marketing, sales, financial or management consulting services in connection with the business of the Company or any Business Affiliate; or

(iii) interfere in any manner in the relationship of the Company or any Business Affiliate with any of its customers, suppliers, or independent contractors, whether or not the relationship between the Company or any Business Affiliate and such customer, supplier, or independent contractor was originally established in whole or in part by the efforts of Shareholder.

6. Non-Disparagement.

During the Non-Competition Period, Shareholder will not, directly or indirectly, for her benefit or for the benefit of any other person, firm or entity or otherwise:

(i) make any statements or comments of a defamatory or disparaging nature to third parties regarding the Company or any Business Affiliate or its or their officers, directors, personnel, products or services; or

(ii) take any action which is intended, or would reasonably be expected, to harm the Company or any Business Affiliate or its reputation or which would reasonably be expected to lead to unwanted or unfavorable publicity to the Company or any Business Affiliate.

7. Other Obligations. The obligations of Shareholder under this Agreement are in addition to, and not in derogation of, any other obligations or duties that Shareholder may have or owe towards the Company or any Business Affiliate, including, without limitation, pursuant to any employment agreement or arrangement or by law as a present or former officer and/or director of the Company.

8. Specific Performance. Shareholder acknowledges that the Company and its Business Affiliates would sustain irreparable injury in the event of a violation by Shareholder of any of the provisions of this Agreement, and by reason thereof Shareholder consents and agrees that if Shareholder violates any of the provisions of this Agreement, in addition to any other remedies available, the Company or its Business Affiliate, as the case may be, shall be entitled to a decree specifically enforcing such provisions, and shall be entitled to a temporary and permanent injunction restraining Shareholder from committing or continuing any such violation, from any court of competent jurisdiction, without the necessity of proving actual damages, posting any bond, or seeking arbitration in any forum.

9. Enforceability. Shareholder acknowledges and agrees that due to the uniqueness of her role with the Company, her services and position, the nature of the confidential information she possesses or will possess and the benefits that she will receive by reason of the transaction contemplated by the Merger Agreement, the covenants set forth herein are reasonable and necessary for the protection of the business and goodwill of the Company and its Business Affiliates. Nevertheless, in the event that any court of competition

jurisdiction determines that any provisions of this Agreement are unreasonable in respect of its geographic boundaries, scope or term, such court is empowered and authorized to amend or modify the provisions of this Agreement to the minimum extent necessary in order to render such provisions valid, lawful and enforceable. Should any provision of this Agreement be held or declared invalid, unlawful or unenforceable, such

invalidity, unlawfulness or unenforceability shall not in any way affect the validity, lawfulness or enforceability of any other provision of this Agreement.

10. Entire Agreement. This Agreement sets forth the entire agreement between the parties with respect to its subject matter and merges and supersedes all prior discussions, agreements and understandings of every kind and nature between any of them and neither party shall be bound by any term or condition other than as expressly set forth or provided for in this Agreement. This Agreement may not be changed or modified nor may any of its provisions be waived, except by an agreement in writing, signed by the parties hereto.

11. Waiver. The failure of the Company or any Business Affiliate to enforce any of its terms, provisions or covenants shall not be construed as a waiver of the same or of the right of the Company or such Business Affiliate to enforce the same. Waiver by the Company or any Business Affiliate of any breach or default by Shareholder of any term or provision of this Agreement shall not operate as a waiver of any other breach or default.

12. Notices. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed to have been duly given or made if and when delivered personally or by overnight courier to the parties at the following addresses or sent by electronic transmission, with confirmation received, to the facsimile numbers specified below:

If to the Company: McGrath RentCorp.
5700 Las Positas Road
Livermore, CA 94550
Attention: President

If to Acquiror: Tyco Acquisition Corp. 33
c/o Tyco International (US) Inc.
One Tyco Park
Exeter, NH 03833
Attention: President

If to Shareholder: Joan M. McGrath
#2 Sixth Ave
San Francisco, CA 9418

with a copy to: Morrison & Foerster LLP
425 Market Street
San Francisco, CA 94105

Attention: Walter Stella, Esq.

or at such other address as shall be indicated to either party in writing by like notice. Notice of change of address shall be effective only upon receipt.

13. Successors and Assigns. This Agreement shall inure to the benefit of, and shall be enforceable by, the Company, any Business Affiliate and their respective successors and assigns.

14. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to conflicts of law principles.

15. Headings. The section headings contained herein are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

16. Counterparts. This Agreement may be executed in counterparts (by original or facsimile signature), each of which shall be deemed an original for all purposes but which, together, shall constitute one and the same instrument.

17. Effectiveness. This Agreement, and all rights and obligations of the parties hereunder, shall become effective at the Effective Time and shall terminate if the Merger Agreement is terminated in accordance with its terms without consummation of the offer and merger transactions contemplated thereby.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

MCGRATH RENTCORP

By: _____
Name:
Title:

TYCO ACQUISITION CORP. 33

By: _____
Name:
Title:

SHAREHOLDER

_____
Name: Joan M. McGrath

Exhibit 23

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K into the Company's previously filed Registration Statement File No. 333-6112 and 333-74089.

Arthur Andersen LLP

San Francisco, California
March 18, 2002

Exhibit 99

LETTER TO COMMISSION PURSUANT TO TEMPORARY NOTE 3T

Securities and Exchange Commission
Washington, D.C. 20549

March 18, 2002

Gentlemen:

Pursuant to temporary note 3T, McGrath RentCorp has obtained a letter of representation from Arthur Andersen stating that the December 31, 2001 audit was subject to their quality control system for the U.S. accounting and auditing practice to provide reasonable assurance that the engagement was conducted in compliance with professional standards, that there was appropriate continuity of Arthur Andersen personnel working on the audit, availability of national office consultation, and availability of personnel at foreign affiliates of Arthur Andersen to conduct the relevant portions of the audit.

Very truly yours,

McGrath RentCorp

By /s/ Thomas J. Sauer
Thomas J. Sauer, Chief Financial Officer