
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, 2002

Commission file number 0-13292

McGRATH RENTCORP

(Exact name of registrant as specified in its Charter)

California
(State or other jurisdiction
of incorporation or organization)

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

5700 Las Positas Road, Livermore, CA 94551-7800
(Address of principal executive offices)

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

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

Title of each class	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

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. []

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

Aggregate market value of voting stock, held by nonaffiliates of the registrant as of June 28, 2002: \$230,545,984.

At March 20, 2003, 12,029,830 shares of Registrant's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

McGrath RentCorp's definitive proxy statement with respect to its Annual Shareholders' Meeting to be held May 28, 2003, which will be filed with the Securities and Exchange Commission within 120 days after the end of its fiscal year, is incorporated by reference into Part III, Items 10, 11, 12, and 13.

Exhibit index appears on page 49

FORWARD LOOKING STATEMENTS

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 and are subject to a number of risks and uncertainties. All statements, other than statements of historical facts included in this Annual Report on Form 10-K regarding the Company's business strategy, future operations, financial position, estimated revenues or losses, projected costs, prospects, plans and objectives are forward-looking statements. These statements appear in a number of places and 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. These forward-looking statements include any statements the Company makes, or implications suggested by statements the Company makes, as to:

- the future prospects for and growth of the Company and the industries in which it operates, including (i) the extent and duration of weakness in the telecommunications industry and the impact of such weakness on the Company and its and financial conditions, (ii) RenTelco's ability to increase its earnings contribution to the Company upon recovery of the telecommunications industry;*
- the level of the Company's future rentals and sales and customer demand;*
- the Company's ability to effectively compete against its competitors;*
- the Company's strategies for the future and its ability to implement and maintain such strategies, including its strategies (i) to actively maintain and repair rental equipment cost effectively and to maximize the level of proceeds from the sale of such products and (ii) to create internal facilities and infrastructure capabilities that can provide prompt and efficient customer service, experienced assistance, rapid delivery and timely maintenance of the Company's equipment;*
- the effect of any future loss of primary manufacturers or suppliers on the Company's products;*
- the Company's ability to maintain and upgrade modular equipment to comply with changes in applicable legislation;*
- the significance of warranty costs to the Company's operations;*
- the effect of changes in legislation on the Company's modular rental and sale revenues, including legislation with respect to policies regarding class size, the level of state funding to public schools and the use of classrooms that meet the Department of Housing requirements;*
- interruptions in the passage of statewide and local facility bond measures and the effect of such interruptions on the Company's operations;*
- the effect of shifting trends in school populations and the need for temporary classroom space during the construction of new schools or new school facilities or during the reconstruction of older schools;*
- the Company's ability to leverage its costs and expenses over a large installed customer base and improve its operating margins;*
- any future effects on the Company's costs of operation and liquidity resulting from the use of alternative building materials in modular buildings;*
- the timing and amounts of future capital expenditures and the Company's ability to meet its needs for working capital and capital expenditures through 2003 and beyond;*
- the effect of changes to the Company's accounting policies (including our critical accounting policies) and future implementation of these policies, including policies with respect to depreciation, maintenance and refurbishment and impairment; and*
- the Company's ability to pass on increases in its costs of rental equipment, including manufacturing costs, operating expenses and interest expense through increases in rental rates and selling prices.*

All forward-looking statements speak only as of the date of this Annual Report on Form 10-K. Readers should not place undue reliance on these forward-looking statements and are cautioned that any such forward-looking statements are not guarantees of future performance. Actual results may vary materially from those in the forward-looking statements as a result of various factors which are identified in "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this document. These factors include: the effectiveness of management's strategies and decisions; changes in demand by public schools for the Company's modular classrooms associated with significant reductions or expected reductions in funding of public schools from the State of California; general economic and business conditions and in particular the continuing weakness in the telecommunications industry; new or modified statutory or regulatory requirements relating to the Company's modular operations; changing prices and market conditions; changes in equipment specifications, equipment condition or maintenance policies; changes in technology applicable to the Company's operations; changes in manufacturer's selling prices; changes in school populations, the level of state funding to public schools and policies regarding class size which affect customer demand; the potential effect of a general decline in the demand in the educational market for the Company's modular classroom products, a market upon which the Company relies for a substantial portion of its revenue; additional impairment charges on the Company's equipment; competition in the modular and electronics business; the loss of major suppliers and manufacturers; increases in the general interest rates which can result in higher interest expense associated with the company's variable rate debt; the Company's inability to pass increased costs on to its customers; and fluctuations in the Company's rentals and sales of modular or telecommunications equipment. 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.

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 relocatable modular buildings, or 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. Significant portions of RenTelco's rental and sale revenues are derived from the telecommunications industry. RenTelco continues to be affected by the severe and prolonged broad-based weakness in the telecommunications industry, which has significantly impacted the Company's overall revenues.

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. RenTelco rents this test equipment primarily to network systems companies, electrical contractors, local & long distance carriers and manufacturers of communications transmission equipment. RenTelco's communications equipment includes a broad spectrum of products 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. The majority of RenTelco's general-purpose equipment is manufactured by Agilent (formerly Hewlett Packard) and Tektronix.

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.

A significant portion of the Company's total revenues is derived from the educational market. Within the educational market, 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) comprised approximately 40%, 34% and 35%, of the Company's consolidated rental and sales revenues for 2002, 2001 and 2000, respectively.

Please see Note 10 to the Consolidated Financial Statements on page 39 for more information on the Company's business segments.

As of December 31, 2002, the Company had 436 employees, of whom 46 are primarily administrative and executive personnel, and the remaining 390 are engaged in manufacturing or rental operations. 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's common stock is traded on the NASDAQ National Market System under the symbol "MGRC."

RELOCATABLE MODULAR BUILDINGS

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 multi-modular facilities, complete with wood exteriors and mansard roofs. The rental fleet includes a full range of styles and sizes. MMMC 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 long useful life. 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. With the exception of Enviroplex, none of the principal suppliers are affiliated with the Company. During 2002, MMMC purchased 28% of its modular product from one manufacturer. MMMC believes that the loss of its primary manufacturer of modulars could have an effect on its operations since MMMC 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. Historically, as state building codes have changed over the years, MMMC has continued to be able to use existing modular equipment, with minimal required upgrades, if any. MMMC has no assurance that it will continue to be able to use existing modular equipment with minimal upgrades as building codes change in the future.

MMMC operates from three regional inventory centers serving large geographic areas in California and Texas with in-house infrastructure and operational capabilities to support quick and efficient repair, modification, and refurbishment of equipment for the next rental opportunity. MMMC believes operating from large regional inventory centers results in better operating margins as operating costs are spread over a large installed customer base. MMMC actively maintains and repairs its rental equipment, and management believes this insures the continued use of the modular product over its long life and, when sold, 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. Management believes the condition of the equipment is a more significant factor in determining the rental rate and sale price than its age. Over the last three years, used equipment sold represented less than 3% of rental equipment, and has been, on average, 10 years old with sale proceeds averaging better than 95% of the equipment's capitalized cost. MMMC depreciates its rental equipment over 18 years using a 50% residual value effective January 1, 2002 and using an 18% residual value prior to 2002.

Marketing

MMMC'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 to California Public Schools (K-12)" below). Other customer 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 operational 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, MMMC's marketing emphasis is on rentals rather than sales. MMMC attracts customers through its website at www.mobilemodularrents.com, 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 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 are operating leases that provide no purchase options, and when a rental agreement does provide the customer with a purchase option, it is generally on terms 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, 2002, MMMC had 18,707 new or previously rented modulars in its rental fleet with an aggregate original cost including accessories of \$285.9 million or an average cost per unit of \$15,300. 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, 2002, fleet utilization was 85.2% and average fleet utilization during 2002 was 85.9%.

Sales

In addition to operating its rental fleet, MMMC sells modulars to customers. These sales typically arise out of its marketing efforts for the rental fleet. Such sales can be of either new or used units from the rental fleet, which permits an orderly turnover of older units. During 2002, MMMC's largest sale of modulars was for new buildings to a county agency for approximately \$1.8 million. This sale represented approximately 9% of MMMC's sales, 4% of the Company's consolidated sales, and 1% of the Company's consolidated revenues.

MMMC provides limited 90-day warranties on used modulars and passes through the manufacturers' one-year warranty on new units to its customers. 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. However, there can be no assurance that warranty costs will continue to be insignificant to MMMC's operations in the future.

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

Competition

Management estimates the business of renting relocatable modular buildings is an industry that today has equipment on rent or available for rent in the United States with an aggregate original cost in excess of \$4.0 billion. Competition in the rental and sale of relocatable modular buildings 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, service, 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. MMMC 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. MMMC's efficiency and responsiveness continues to improve as procedures, processes and computer systems that control its internal operations are enhanced. MMMC anticipates strong competition in the future and believes its process of improving its products and services is ongoing.

Classroom Sales by Enviroplex

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 2002, Enviroplex's largest sale was for \$3.3 million of new classrooms to a school district. This sale represented 26% of Enviroplex's sales, 8% of the Company's consolidated sales and 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 has simplified its manufacturing process through value engineering 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 in addition to quality classrooms that are competitively priced and delivered on time, its customers want choices in design flexibility and customization. Management believes Enviroplex's niche in providing these additional features in its products gives it a competitive edge. However, there can be no assurance that Enviroplex will be able to continue to provide design flexibility and customization that can effectively compete in the market.

Enviroplex provides a one-year warranty on manufactured equipment. Warranty costs have not been significant to Enviroplex's operations to date, which can be attributed to Enviroplex's dedication to manufacturing and delivering a quality, problem-free product. However, there can be no assurance that warranty costs will continue to be insignificant to Enviroplex's operations in the future.

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

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

Percentage of:	2002	2001	2000	1999	1998
Modular Rental Revenues (<i>MMMC</i>)	49%	49%	47%	48%	44%
Modular Sales Revenues (<i>MMMC & Enviroplex</i>)	54%	54%	61%	52%	78%
Consolidated Rental and Sales Revenues ¹	40%	34%	35%	34%	45%

¹ Consolidated Rental and Sales Revenue percentage is calculated by dividing Modular rental and sales revenues by the Company's consolidated rental and sales revenues.

The elevated modular sales percentage shown for 1998 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.

The great majority of funding for facility requirements in California's public schools (K-12) and community colleges is derived from the passage of both statewide and local facility bond measures. Historically, the Company has benefited from the passage of these types of facility bonds and believes these are essential to its business. Looking forward, the Company believes that any interruption in the passage of these types of facility bonds, contraction of the Class Size Reduction Program, a lack of fiscal funding, or a significant reduction of funding from the State of California to public schools may have a material adverse effect on both rental and sale revenues of the Company.

Legislation

In California (where most of the Company's educational rentals have occurred), school districts are permitted to purchase only portable classrooms built to the requirements of the 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 initially had until August 31, 2002 and then December 31, 2002 to make the necessary modifications to extend their usage of these buildings. To the extent that school districts have not retrofitted these buildings 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, 2002, the net book value of DOH classrooms represented less than 1.9% of the net book value of the Company's modular rental equipment and 1.2% of the total assets of the Company, and the utilization of these DOH classrooms was 71.9%.

ELECTRONIC TEST AND MEASUREMENT INSTRUMENTS

Description

RenTelco'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, CATV, component measurement, industrial, signal source, microprocessor development and power source test equipment. RenTelco's communications inventory includes equipment from over 40 manufacturers and the majority of the general-purpose inventory is manufactured by Agilent (formerly Hewlett Packard) and Tektronix. RenTelco also rents electronic instruments from other rental companies and re-rents the instruments to customers.

During the first six months of 2002, RenTelco recorded noncash impairment charges of \$24.1 million resulting from the depressed and low projected demand for its rental products coupled with high inventory levels, especially communications equipment. RenTelco's business activity levels are directly attributable to the severe and prolonged broad-based weakness in the telecommunications industry. RenTelco has limited visibility as to when the recovery in this sector will occur, and there can be no assurance as to the effect of such recovery on RenTelco's operations.

At December 31, 2002, RenTelco had an aggregate cost of electronics rental inventory and accessories of \$39.8 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. Utilization was 41.6% as of December 31, 2002 and averaged 38.2% during the year. Generally, RenTelco targets utilization levels in a range between 50% and 55%. There can be no assurance that in the future RenTelco's utilization levels will reach RenTelco's target utilization levels or even remain at their 2002 average. RenTelco rents electronic test equipment for a typical rental period of one to six months at monthly rental rates ranging from approximately 3% to 10% of the current manufacturers' list price. RenTelco depreciates its equipment over 5 to 8 years with no residual value.

RenTelco endeavors to maintain an inventory of equipment meeting more current technological standards and attempts to sell equipment so that the majority of the inventory is less than five years old. RenTelco generally sells used equipment after approximately four years of service to permit an orderly turnover and replenishment of the electronics inventory. With weak market demand and lower than target utilization levels, RenTelco will continue to sell rental equipment determined to be in excess of the required levels to meet projected customer rental demand. There can be no assurance that RenTelco will be successful in these efforts. In 2002, approximately 36% of the electronics revenues were derived from sales. The largest electronics sale during 2002 represented 4% 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.

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

RenTelco 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. RenTelco also believes that a substantial portion of electronic test and measurement instruments are used for research and development projects where the relative certainty of rental costs can facilitate cost control and be useful in bidding for government contracts. Finally, as is true with the rental of any equipment, renting rather than purchasing may better satisfy the customer's budgetary constraints.

The industry consists primarily of three major companies. RenTelco competes with these major companies on the basis of product availability, price, service, and reliability. However, all three companies are much larger than RenTelco, may have substantially greater financial resources and are well established in the industry with a large inventory of equipment, several branch offices and experienced personnel, and there can be no assurance that RenTelco will be able to compete effectively with these major companies in the future.

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 buildings, year-end and average utilization, average rental equipment (at cost), annual yield on average rental equipment (at cost) and gross margin on rental revenues and sales by product line for the past five years.

Product Highlights

(dollar amounts in thousands)

	Year Ended December 31,				
	2002	2001	2000	1999	1998
Relocatable Modular Buildings (operating under MMMC and Enviroplex)					
Revenues					
Rental	\$ 66,214	\$ 63,542	\$ 56,779	\$ 51,622	\$ 47,957
Rental Related Services	16,936	17,117	16,462	12,542	11,007
Total Modular Rental Operations	83,150	80,659	73,241	64,164	58,964
Sales—MMMC	20,124	15,758	23,831	16,100	23,171
Sales—Enviroplex	12,488	14,993	16,992	11,150	20,672
Total Modular Sales	32,612	30,751	40,823	27,250	43,843
Other	678	644	423	500	448
Total Modular Revenues	\$ 116,440	\$ 112,054	\$ 114,487	\$ 91,914	\$ 103,255
Percentage of Rental Revenues	80.8 %	63.1%	59.8%	65.5%	66.6%
Percentage of Total Revenues	80.3 %	70.3%	69.7%	70.7%	76.2%
Rental Equipment, at cost (year-end)	\$285,901	\$281,203	\$261,081	\$238,449	\$216,444
Rental Equipment, net book value (year-end)	\$200,593	\$197,764	\$187,059	\$171,166	\$156,790
Number of Units (year-end)	18,707	18,554	17,555	16,230	15,139
Utilization (year-end) ¹	85.2 %	86.2%	84.9%	80.2%	83.0%
Average Utilization ¹	85.9 %	85.4%	82.3%	81.6%	83.1%
Average Rental Equipment, at cost ²	\$274,912	\$260,760	\$238,408	\$213,571	\$186,865
Annual Yield on Average Rental Equipment, at cost	24.1 %	24.4%	23.8%	24.2%	25.7%
Gross Margin on Rental Revenues	65.3 %	55.2%	50.2%	55.3%	56.2%
Gross Margin on Sales	27.3 %	30.9%	28.0%	29.5%	30.8%
Electronic Test and Measurement Instruments (operating under RenTelco)					
Revenues					
Rental	\$ 15,777	\$ 37,180	\$ 38,152	\$ 27,132	\$ 24,010
Rental Related Services	561	710	723	501	521
Total Electronics Rental Operations	16,338	37,890	38,875	27,633	24,531
Sales	9,645	8,784	10,201	9,789	7,201
Other	508	666	595	626	441
Total Electronics Revenues	\$ 26,491	\$ 47,340	\$ 49,671	\$ 38,048	\$ 32,173
Percentage of Rental Revenues	19.2 %	36.9%	40.2%	34.5%	33.4%
Percentage of Total Revenues	18.3 %	29.7%	30.3%	29.3%	23.8%
Rental Equipment, at cost (year-end)	\$ 39,786	\$ 95,419	\$ 92,404	\$ 72,832	\$ 66,573
Rental Equipment, net book value (year-end)	\$ 21,306	\$ 57,758	\$ 60,343	\$ 46,012	\$ 43,238
Utilization (year-end) ¹	41.6 %	34.4%	63.5%	54.4%	51.5%
Average Utilization ¹	38.2 %	50.4%	61.4%	53.8%	54.6%
Average Rental Equipment, at cost ³	\$ 58,952	\$ 97,715	\$ 82,401	\$ 68,420	\$ 56,859
Annual Yield on Average Rental Equipment, at cost	26.8 %	38.0%	46.3%	39.7%	42.2%
Gross Margin on Rental Revenues ³	(120.3)%	56.6%	63.8%	59.5%	61.5%
Gross Margin on Sales	29.1 %	32.7%	32.6%	29.7%	32.9%
Total Revenues⁴	\$ 145,086	\$ 159,394	\$ 164,158	\$ 129,962	\$ 135,428

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

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

³ In 2002, RenTelco's Average Rental Equipment, at cost, and Gross Margin on Rental Revenues were significantly impacted by impairment charges of \$24.1 million recorded in the first half of 2002.

⁴ In 2002, in addition to the revenues from modulars and electronics products, 1.4% of Total Revenues resulted from a \$1.25 million nonrecurring reimbursement of merger related costs and expenses and \$0.9 million gain on land sales not allocated to the specific products.

TERMINATED MERGER AGREEMENT

On July 1, 2002, McGrath RentCorp exercised its right to terminate a merger agreement, dated as of December 20, 2001, between McGrath RentCorp and Tyco Acquisition Corp. 33 ("Tyco"), a subsidiary of Tyco International Ltd. During 2001 and 2002, the Company incurred merger related expenses of \$1.9 million and \$0.6 million, respectively. In August 2002, Tyco paid \$1.25 million to McGrath RentCorp as reimbursement of certain costs and expenses incurred in connection with the proposed merger. In connection with the payment, McGrath RentCorp and Tyco have agreed that neither of them will have any claims against the other or their affiliates in connection with the merger agreement.

ITEM 2. PROPERTIES.

The Company currently conducts its operations from five locations. Inventory centers, at which relocatable modular buildings are displayed, refurbished and stored are located in Livermore, California (San Francisco Bay Area), Mira Loma, California (Los Angeles Area) and Pasadena, Texas (Houston Area). These three branches conduct rental and sales operations from multi-modular buildings, 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 2002, the Company sold excess properties located in Corona, California and Arlington, Texas, which were not part of existing operating facilities for a gain of \$905,000.

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, 2002. The Company owns all properties, except as noted in footnote 4 of the Facilities table below.

Facilities

	<i>Total Acres</i>	<i>Square Footage</i>		
		<i>Office</i>	<i>Warehouse</i>	<i>Total</i>
<u>Corporate Offices</u>				
Livermore, California ¹	—	9,840	—	9,840
<u>Relocatable Modular Buildings</u>				
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
<u>Electronic Test and Measurement Instruments</u>				
Livermore, California ¹	—	8,400	7,920	16,320
Plano, Texas ³	2.6	28,337	10,773	39,110
<u>Enviroplex, Inc.</u>				
Stockton, California ⁴	16.9	5,825	120,080	125,905
	287.7	71,870	261,653	333,523

- 1 The modular building 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 are rented to a third party through October 2005 and 35.8 acres are undeveloped.
3 Of the 28,337 square feet of office space, 19,152 square feet are rented to a third party through February 2006.
4 Of the 16.9 acres, 6 acres are rented through June 2004. The leased facility includes 2,460 square feet of office space and 18,030 square feet of warehouse space.

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

	2002				2001			
	4Q	3Q	2Q	1Q	4Q	3Q	2Q	1Q
High	\$ 23.60	\$ 25.62	\$ 31.15	\$ 37.92	\$ 37.69	\$ 26.70	\$ 27.50	\$ 22.50
Low	\$ 20.08	\$ 17.21	\$ 24.53	\$ 27.90	\$ 20.01	\$ 20.22	\$ 21.63	\$ 17.63
Close	\$ 23.15	\$ 20.37	\$ 25.92	\$ 30.75	\$ 37.52	\$ 21.51	\$ 24.14	\$ 21.88
Dividends Declared	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16

As of March 20, 2003, the Company's common stock was held by 85 shareholders of record, which does not include shareholders whose shares are held in street or nominee name. The Company believes that when holders in street or nominee name are added, the number of holders of the Company's common stock exceeds 500.

The Company has declared a quarterly dividend on its common stock every quarter since 1990. The total amount of cash dividends paid by the Company in 2002 and 2001 is discussed under "*Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.*" Subject to its continued profitability and favorable cash flow, the Company intends to continue the payment of quarterly dividends.

The Company's Long-Term Stock Bonus Plans provide for stock bonuses to be granted to officers and key employees dependent upon achievement of certain financial goals covering specified performance periods. The Company issued to Dennis C. Kakures and Thomas J. Sauer, both officers of the Company, an aggregate of 6,736 shares of common stock in March 2002, 4,948 shares of common stock in March 2001 and 20,920 shares of common stock in March 2000. These issuances were exempt from the registration requirements of the Securities Act of 1933 by virtue of section 4(2) thereof.

ITEM 6. SELECTED FINANCIAL DATA.

The following table summarizes the Company's selected financial data for the five years ended December 31, 2002 and should be read in conjunction with the more detailed Consolidated Financial Statements and related notes reported in Item 8 below.

Selected Consolidated Financial Data

	Year Ended December 31,				
	2002	2001	2000	1999	1998
<i>(dollar and share amounts in thousands, except per share data)</i>					
Operations Data					
Revenues					
Rental	\$ 81,991	\$ 100,722	\$ 94,931	\$ 78,754	\$ 71,967
Rental Related Services	17,497	17,827	17,185	13,043	11,528
Rental Operations	99,488	118,549	112,116	91,797	83,495
Sales	42,257	39,535	51,024	37,039	51,044
Other	3,341	1,310	1,018	1,126	889
Total Revenues	145,086	159,394	164,158	129,962	135,428
Costs and Expenses					
Direct Costs of Rental Operations					
Depreciation of Rental Equipment	15,792	27,270	23,850	19,780	16,862
Rental Related Services	9,497	10,654	9,304	7,153	6,531
Impairment of Rental Equipment	24,083	—	1,927	—	—
Other	17,839	17,298	16,323	14,284	13,390
Total Direct Costs of Rental Operations	67,211	55,222	51,404	41,217	36,783
Cost of Sales	30,541	27,172	36,256	26,078	35,189
Total Costs	97,752	82,394	87,660	67,295	71,972
Gross Margin	47,334	77,000	76,498	62,667	63,456
Selling and Administrative	22,099	24,955	19,982	17,103	16,220
Income from Operations	25,235	52,045	56,516	45,564	47,236
Interest	3,982	7,078	8,840	6,606	6,326
Income before Provision for Income Taxes	21,253	44,967	47,676	38,958	40,910
Provision for Income Taxes	8,459	17,807	19,762	14,874	16,010
Income before Minority Interest	12,794	27,160	27,914	24,084	24,900
Minority Interest in Income of Subsidiary	161	482	670	251	1,005
Income before Effect of Accounting Change	12,633	26,678	27,244	23,833	23,895
Cumulative Effect of Accounting Change, net of tax ¹	—	—	—	(1,367)	—
Net Income	\$ 12,633	\$ 26,678	\$ 27,244	\$ 22,466	\$ 23,895
Earnings Per Share:					
Basic					
Income before Cumulative Effect of Accounting Change	\$ 1.01	\$ 2.18	\$ 2.21	\$ 1.80	\$ 1.69
Cumulative Effect of Accounting Change, net of tax ¹	—	—	—	(0.10)	—
Net Income	\$ 1.01	\$ 2.18	\$ 2.21	\$ 1.70	\$ 1.69
Diluted					
Income before Cumulative Effect of Accounting Change	\$ 1.00	\$ 2.14	\$ 2.19	\$ 1.78	\$ 1.67
Cumulative Effect of Accounting Change, net of tax ¹	—	—	—	(0.10)	—
Net Income	\$ 1.00	\$ 2.14	\$ 2.19	\$ 1.68	\$ 1.67
Shares Used in Per Share Calculation:					
Basic	12,468	12,232	12,334	13,235	14,163
Diluted	12,619	12,495	12,428	13,383	14,349
Cash Dividends Declared Per Common Share	\$ 0.70	\$ 0.64	\$ 0.56	\$ 0.48	\$ 0.40
Pro Forma Amounts Assuming Change had been in effect during 1998					
Net Income	\$ 12,633	\$ 26,678	\$ 27,244	\$ 23,833	\$ 23,697
Earnings Per Share—Basic	\$ 1.01	\$ 2.18	\$ 2.21	\$ 1.80	\$ 1.67
Earnings Per Share—Diluted	\$ 1.00	\$ 2.14	\$ 2.19	\$ 1.78	\$ 1.65

Selected Consolidated Financial Data (continued)

Year Ended December 31,

(dollar and share amounts in thousands, except per share data)

	2002	2001	2000	1999	1998
Balance Sheet Data (at period end)					
Rental Equipment, at cost	\$ 325,687	\$ 376,622	\$ 353,485	\$ 311,281	\$ 282,987
Rental Equipment, net	\$ 221,899	\$ 255,522	\$ 247,402	\$ 217,178	\$ 200,028
Total Assets	\$ 313,134	\$ 354,884	\$ 357,246	\$ 297,722	\$ 278,676
Notes Payable	\$ 55,523	\$ 104,140	\$ 126,876	\$ 110,300	\$ 97,000
Shareholders' Equity	\$ 139,019	\$ 131,595	\$ 108,958	\$ 95,403	\$ 105,394
Shares Issued and Outstanding	12,490	12,335	12,125	12,546	13,970
Book Value Per Share	\$ 11.13	\$ 10.67	\$ 8.99	\$ 7.60	\$ 7.54
Debt (Total Liabilities) to Equity	1.25	1.70	2.28	2.12	1.64
Debt (Notes Payable) to Equity	0.40	0.79	1.16	1.16	0.92
Return on Average Equity	9.5%	22.0%	26.7%	22.7%	24.0%

¹ 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 rental 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) 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 a decrease in net income by \$1.4 million (net of taxes of \$0.9 million) or \$0.10 per diluted share.

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

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

Results of Operations**General**

The Company generates the majority of its revenue from the rental of relocatable modular buildings and electronic test and measurement instruments on operating leases with sales of equipment occurring in the normal course of business. The Company requires significant capital outlay to purchase its rental inventory and recovers its investment through rental and sale revenues. Rental revenue and other services negotiated as part of the lease agreement with the customer and related costs are recognized on a straight-line basis over the term of the lease. Sales revenue and related costs are recognized upon delivery and installation of the equipment to the customer. The Company's growth in rental assets has been primarily funded through internal cash flow and conventional bank financing. Generally, rents recover the equipment's capitalized cost in a short period of time relative to the equipment's rental life and when sold, high sale proceeds are generated as compared to its capitalized cost. Significant risks of rental equipment ownership are borne by the Company, which include, but are not limited to, uncertainties in the market for its products over the equipment's useful life, use limitations for modular equipment related to updated building codes or legislative changes, technological obsolescence of electronics equipment, and rental equipment deterioration. The Company believes it mitigates these risks by continued advocacy and collaboration with governing agencies and legislative bodies for ongoing use of its modular product, staying abreast of technology trends in order to make good buy-sell decisions of electronics equipment, and ongoing investment in repair and maintenance programs to insure both types of rental equipment are in good operating condition.

The Company's modular revenues are primarily affected by demand for classrooms which in turn is affected by shifting and fluctuating school populations, the level of state funding to public schools, the need for temporary classroom space during

reconstruction of older schools and changes in policies regarding class size. In particular, public schools in the State of California are currently experiencing or are expected to experience in the near term a significant reduction of funding from the state associated with the state's general reductions in its budget. As a result of the reduced funding, lower expenditures by these schools may result in certain planned programs, including the increase in the number of classrooms such as the Company provides to be postponed or terminated; however, there can be no assurance that will occur. Reduced expenditures may in fact result in schools reducing their long-term facility construction projects in favor of using the Company's modular classroom solutions. At this time the Company can make no assurances as to whether public schools will either reduce or increase their demand for the Company's modular classrooms as a result of the reduced or expected reduction in funding of public schools in the State of California. Looking forward, the Company believes that any interruption in the passage of facility bonds or contraction of the Class Size Reduction Program by the State of California to public schools may have a material adverse effect on both rental and sale revenues of the Company. (For more information, see "Item 1. Business—Relocatable Modular Buildings—Classroom Rentals and Sales to California Public Schools (K-12)" above.)

The Company's rental operations include rental and rental related service revenues which comprised approximately 69% of consolidated revenues in 2002 and 70% of consolidated revenues for the three years ended December 31, 2002. Over the past three years, modulars comprised 72% and electronics comprised 28% of the cumulative rental operations revenues. The Company's direct costs of rental operations include depreciation of rental equipment, rental related service costs, impairment of rental equipment, and other direct costs of rental operations which include direct labor, supplies, repairs, insurance, property taxes, license fees and amortization of certain lease costs.

The Company also sells both modular and electronic test equipment that is new, previously available for rent, or manufactured by its majority owned subsidiary, Enviroplex. The renting and selling of some modular equipment requires a dealer's license, which the Company has obtained from governmental agencies in California and Texas. Sales and other revenues of both modular and electronic test equipment have comprised approximately 31% of the Company's consolidated revenues in 2002 and 30% of the Company's consolidated revenues over the last three years. During these three years, modulars comprised 76%, electronics represented 22%, and items not allocated to these product segments represented 2% of sales and other revenues. The Company's cost of sales include the carrying value of the equipment sold and all the direct costs associated with the sale.

The rental and sale of modulars to California public school districts comprised 40%, 34% and 35% of the Company's consolidated rental revenues and consolidated sales revenues for 2002, 2001 and 2000. (For more information, see "Item 1. Business—Relocatable Modular Buildings—Classroom Rentals and Sales to California Public Schools (K-12)" above.)

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

The Company's RenTelco division continues to be affected by the severe and prolonged broad-based weakness in the telecommunications industry, which has significantly impacted the Company's overall results in 2002. In 2002, RenTelco's rental revenues declined 58% to \$15.8 million from \$37.2 million in 2001 with quarterly rental revenues declining each quarter during the year. During the first six months of 2002, RenTelco recorded noncash impairment charges of \$24.1 million. Of this amount, \$11.9 million was recorded during the three months ended March 31, 2002 and resulted from the depressed and low projected demand for RenTelco's rental products coupled with high inventory levels, particularly communications equipment. Worsening market demand for the Company's communications equipment caused an additional \$12.2 million impairment charge to be recorded for the three months ended June 30, 2002. There was no impairment charge recorded during the second half of 2002. In conjunction with these writedowns, equipment with an adjusted value of \$1.9 million was classified as held for sale and was no longer depreciated. As a result of the above, RenTelco's pretax contribution has declined from pretax earnings of \$16.0 million in 2001 to a pretax loss of \$22.0 million in 2002. The \$24.1 million in impairment charges primarily reduced the net carrying value of the RenTelco's communications equipment. At December 31, 2002, the communications equipment had a carrying value of \$8.1 million after considering the writedowns, or 38% of the electronics inventory, and includes the remaining equipment held for sale of \$0.6 million. There can be no assurance that future impairment charges on RenTelco's remaining equipment will not occur.

Looking forward for the foreseeable future, the Company expects RenTelco's business activity levels to be low until such time as the telecommunications industry recovers. While management has limited visibility as to when the recovery in this sector will occur, management believes executing the plan to reduce equipment and overhead expense levels to meet projected business activity levels for the near term, positions RenTelco to increase its earnings contribution upon the recovery of the telecommunications industry. However, there can be no assurance as to RenTelco's operations and financial results in connection with any such recovery. If business levels were to decline further, the Company is subject to the risk that additional equipment may become impaired which would adversely impact the Company's future reported results. The Company will continue to sell rental equipment determined to be in excess of the required levels to meet projected customer rental demand. There can be no assurance that the Company will be successful in these efforts.

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 2002– 2000	Year Ended December 31,			2002 over 2001	2001 over 2000
	2002	2001	2000			
Revenues						
Rental	59%	57%	63%	58%	(19)%	6 %
Rental Related Services	11	12	11	10	(2)	4
Rental Operations	70	69	74	68	(16)	6
Sales	28	29	25	31	7	(23)
Other	2	2	1	1	155	29
Total Revenues	100%	100%	100%	100%	(9)%	(3)%
Costs and Expenses						
Direct Costs of Rental Operations						
Depreciation of Rental Equipment	14	11	17	15	(42)	14
Rental Related Services	6	7	7	6	(11)	15
Impairment of Rental Equipment	6	17	0	1	100	(100)
Other	11	11	11	9	3	6
Total Direct Costs of Rental Operations	37	46	35	31	22	7
Cost of Sales	20	21	17	22	12	(25)
Total Costs	57	67	52	53	19	(6)
Gross Margin	43	33	48	47	(39)	1
Selling and Administrative	14	16	15	13	(11)	25
Income from Operations	29	17	33	34	(52)	(8)
Interest	5	2	5	5	(44)	(20)
Income before Provision for Income Taxes	24	15	28	29	(53)	(6)
Provision for Income Taxes	10	6	11	12	(52)	(10)
Income before Minority Interest	14	9	17	17	(53)	(3)
Minority Interest in Income of Subsidiary	<i>nm</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>	(66)	(28)
Net Income	14%	9%	17%	17%	(53)%	(2)%

nm = not meaningful

Fiscal Years 2002 and 2001

In 2002, rental revenues decreased \$18.7 million (19%) over 2001, with MMMC's rental revenue increasing \$2.7 million (4%) and RenTelco's rental revenue decreasing \$21.4 million (58%). MMMC's rental revenues increased primarily due to higher equipment levels on rent during 2002, while RenTelco's rental revenues declined due to continued broad-based weakness in the telecommunications industry, as described above. For MMMC, modular utilization, or the cost of rental equipment on rent divided by the total cost of rental equipment excluding new equipment not previously rented and accessory equipment, as of December 31, 2002

and 2001 was 85.2% and 86.2%, respectively. In 2002, average modular equipment on rent, valued at cost, increased by \$13.4 million compared to a year earlier. Average utilization for modulars increased from 85.4% in 2001 to 85.9% in 2002 while the annual yield, or rental revenues divided by the average rental equipment cost, declined slightly from 24.4% to 24.1%. For RenTelco, electronics utilization, was 41.6% as of December 31, 2002 as compared to 34.4% as of December 31, 2001, both of which were below RenTelco's target range of between 50% and 55%. Electronics average equipment on rent, valued at cost and adjusted for the equipment writedowns occurring in 2002, decreased by \$26.6 million compared to a year earlier as demand continued to worsen for communications rental equipment. Average utilization for electronics decreased from 50.4% in 2001 to 38.2% in 2002 with the annual yield decreasing from 38.0% in 2001 to 26.8% in 2002.

Depreciation of rental equipment in 2002 decreased \$11.5 million (42%) over 2001. For MMMC, depreciation of rental equipment decreased \$6.3 million primarily as a result of changing the residual value for modular equipment from 18% to 50% of the original cost effective January 1, 2002. For RenTelco, depreciation of rental equipment decreased \$5.2 million primarily as a result of the equipment write-downs, which classified certain equipment as non-depreciable equipment held for sale and lowered the monthly depreciation expense on written down rental equipment. These decreases in depreciation expense were offset in part by depreciation related to rental equipment additions and a reduction in the useful life for certain electronics optical equipment effective January 1, 2002.

For MMMC, as rental revenues increased 4%, depreciation as a percentage of rental revenues declined from 21% in 2001 to 11% in 2002 primarily due to the impact of the change in residual value for modular equipment discussed above. For RenTelco, as rental revenues declined 58%, depreciation as a percentage of revenues increased from 37% in 2001 to 55% in 2002 as a result of lower utilization levels and lower rental rates. RenTelco's increase in depreciation expense as a percentage of rental revenues occurred in spite of the first and second quarter 2002 write-downs of electronics equipment.

Other direct costs of rental operations increased \$0.5 million (3%) from 2001 primarily due to increased maintenance and repair expenses of the modular fleet. Consolidated gross margin on rents decreased from 55.8% in 2001 to 29.6% in 2002 due primarily to the RenTelco impairment charges of \$24.1 million.

Rental related services revenues in 2002 decreased \$0.3 million (2%) over 2001 as a result of slightly lower volume of modular equipment movements and site requirements in 2002. Gross margin on these services increased from 40.2% in 2001 to 45.7% in 2002.

Sales in 2002 increased \$2.7 million (7%) from 2001 primarily as a result of higher sales volume by both MMMC and RenTelco, offset by lower sales volume at Enviroplex. MMMC's sales volume increased \$4.4 million due to the occurrence of several significant sales in 2002, RenTelco's sales volume increased \$0.8 million due to the increased efforts to sell underutilized equipment, and Enviroplex's sales decreased \$2.5 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 decreased from 31.3% in 2001 to 27.7% in 2002 as a result of lower margins on new equipment sales and more competitive pricing on electronic test equipment sales.

Enviroplex's backlog of orders as of December 31, 2002 and 2001 was \$3.4 million and \$4.9 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 electronics business.

Other revenue increased \$2.0 million (155%) over 2001 as a result of a \$1.25 million nonrecurring reimbursement of merger related costs and expenses from Tyco (for more information, see "Item 1. Business—Terminated Merger Agreement" above) and a gain on land sales of \$0.9 million related to excess property not part of existing operating facilities.

Selling and administrative expenses in 2002 decreased \$2.9 million (11%) over 2001. The decrease is primarily due to lower costs and expenses related to a merger agreement with Tyco of \$1.3 million, lower personnel and benefit costs of \$0.9 million, lower web maintenance and development costs of \$0.6 million and lower depreciation and amortization expense of \$0.3 million.

Interest expense in 2002 decreased \$3.1 million (44%) from 2001 as a result of 29% lower debt levels and 21% lower average interest rates over a year earlier.

Income before provision for taxes in 2002 decreased \$23.7 million (53%) from 2001 and net income decreased \$14.0 million (53%) with earnings per diluted share decreasing 53% from \$2.14 per diluted share in 2001 to \$1.00 per diluted share in 2002. The Company's effective tax rate remained consistent from year to year with a slight increase from 39.6% in 2001 to 39.8% in 2002.

The results for 2002 include the following significant items:

- Noncash RenTelco impairment charges of \$24.1 million reduced net income by \$14.5 million or \$1.15 per share.
- Lower depreciation expense resulting from both the January 1, 2002 revision in the estimated modular equipment residual values from 18% to 50% of original cost and the electronics equipment write-downs occurring in the first half of 2002 increased net income by \$6.5 million or \$0.51 per share.
- Gain on land sales of \$0.9 million increased net income by \$0.5 million or \$0.04 per share.
- Net nonrecurring income of \$0.7 million related to a terminated merger agreement with Tyco increased net income by \$0.4 million or \$0.03 per share.

The results for 2001 included the following significant item:

- Nonrecurring expenses of \$1.9 million related to a terminated merger agreement with Tyco decreased net income by \$1.1 million, or \$0.09 per share.

For comparability, excluding impairment charges, merger-related items, gain on land sales and depreciation impact of both increasing the modular residual values and the electronics equipment write-downs, net income and earnings per share would have declined from a pro forma amount of \$27.8 million or \$2.23 per share in 2001 to \$19.7 million or \$1.57 per share in 2002. While there can be no assurance, looking forward, management expects 2003 results to continue to benefit from lower depreciation expense resulting from the increase in modular residual value and lower carrying values of electronics written-down equipment with an estimated benefit in 2003 of \$7.6 million or \$0.60 per share.

Fiscal Years 2001 and 2000

Rental revenues increased \$5.8 million (6%) over 2000, with MMMC's revenues increasing \$6.8 million (12%) and RenTelco's revenues 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 modulares, 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.

Depreciation of 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, 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%) Enviroplex. MMMC sales volume decreased \$8.1 million due to the occurrence of several significant sales in 2000 which did not occur in 2001, 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.

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 which did not occur in 2001, and Enviroplex sales decreased \$2.0 million due to lower order volume. Sales continue to occur routinely as 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 a merger agreement with Tyco (for more information, see "*Item 1. Business—Terminated Merger Agreement*" above), 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.

Liquidity and Capital Resources

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 and to pay down debt over the past three years.

Funding of Rental Asset Growth

(amounts in thousands)

	Year Ended December 31,			Three Year Totals
	2002	2001	2000	
Cash Provided by Operating Activities	\$ 52,251	\$ 58,938	\$ 49,966	\$ 161,155
Proceeds from the Sale of Rental Equipment	18,984	18,015	18,380	55,379
Cash Available for Purchase of Rental Equipment	\$ 71,235	\$ 76,953	\$ 68,346	\$ 216,534
Purchases of Rental Equipment	\$(18,918)	\$(46,877)	\$(67,389)	\$ (133,184)
Notes Payable Increase (Decrease)	\$(48,617)	\$(22,736)	\$ 16,576	\$ (54,777)

Sales occur routinely as a normal part of the Company's rental business. However, these sales can fluctuate from year to year depending on customer requirements and funding. Although the net proceeds received from sales may fluctuate from year to year, the Company believes its liquidity will not be adversely impacted from lower sales in any given year because it believes it has the ability to increase its bank borrowings and/or conserve its cash in the future by reducing the amount of cash it uses to purchase rental equipment, dividend payments or the repurchasing of its common stock.

In addition to increasing its rental assets, the Company had other capital expenditures for property, plant and equipment of \$0.5 million in 2002, \$1.6 million in 2001 and \$3.4 million in 2000, 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 market transactions (NASDAQ) and/or through privately negotiated, large block transactions under an authorization of the Board of Directors. Shares repurchased by the Company are canceled and returned to the status of authorized but unissued stock. The following table summarizes the dividends paid and the repurchases of the Company's common stock during the past three years.

Dividend and Repurchase Summary

(amounts in thousands, except per share data)

	Year Ended December 31,			Three Year Totals
	2002	2001	2000	
Cash Dividends Paid	\$ 8,468	\$ 7,582	\$ 6,675	\$ 22,725
Shares Repurchased	—	—	451	451
Average Price Per Share	\$ —	\$ —	\$ 16.33	\$ 16.33
Aggregate Purchase Price	\$ —	\$ —	\$ 7,364	\$ 7,364
Total Cash Returned to Shareholders	\$ 8,468	\$ 7,582	\$ 14,039	\$ 30,089

Subsequent to December 31, 2002, the Company repurchased 462,900 shares of common stock for an aggregate repurchase price of \$10.2 million or an average price of \$22.05 per share. As of March 20, 2003, 1,000,000 shares remain authorized for repurchase.

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 \$120.0 million as of March 20, 2003. The Company decreased its borrowings under this line by \$39.0 million during the year, and at December 31, 2002, the outstanding borrowings under this line were \$30.5 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 \$1.0 million was outstanding as of December 31, 2002. The Company's credit facility related to its cash management services facilitate automatic borrowings and repayments with the bank on a daily basis depending on the Company's cash position and allows the Company to maintain minimal cash balances. At December 31, 2002, the Company had capacity to borrow up to an additional \$93.5 million under its existing lines of credit beyond its then existing debt. The Company had a total liabilities to equity ratio of 1.25 to 1 and 1.70 to 1 as of December 31, 2002 and 2001, respectively. The debt (notes payable) to equity ratio was 0.40 to 1 and 0.79 to 1 at December 31, 2002 and 2001, respectively. Although no assurance can be given, the Company believes it will continue to be able to negotiate general bank lines of credit adequate to meet capital requirements not otherwise met by operational cash flows and proceeds from sale of rental equipment.

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, 2002, was \$24.0 million. The Company expects to make principal and interest payments on these notes of \$9.3 million in 2003.

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. (For further details of the settlement, see the Company's Quarterly Report on Form 10-Q filed with the SEC on August 8, 2001.) 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 2003 and beyond will be adequately met by operational cash flow, proceeds from sale of rental equipment, and bank borrowings.

Please see the Company's Consolidated Statements of Cash Flows on page 27 for a more detailed presentation of the sources and uses of the Company's cash.

Critical Accounting Policies

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

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

The lives and residual values of rental equipment are subject to periodic evaluation. For modular equipment, external factors to consider may include, but are not limited to, changes in legislation, regulations, building codes, local permitting, and supply or demand. Internal factors for modulars may include, but are not limited to, change in equipment specifications, condition of equipment, or maintenance policies. For electronics equipment, external factors to consider may include, but are not limited to, technological advances, changes in manufacturers' selling prices, and supply or demand. Internal factors for electronics may include, but are not limited to, change in equipment specifications, condition of equipment 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.

Effective January 1, 2002, the Company prospectively revised the estimated residual value of its relocatable modular buildings from 18% to 50% of original cost. The change in estimate is based on actual used equipment sales experience and management believes that this change better reflects the future expected residual values of the modular equipment. Historical results demonstrate that upon sale, the Company recovers a higher percentage of its modular equipment cost than previously estimated. The Company's proactive repair and maintenance program is a key factor contributing to the high recovery of its equipment's cost upon sale. For 2002, the effect of revising the estimated residual value of its relocatable modular buildings was a decrease in depreciation expense of \$7.3 million and an increase in net income of \$4.4 million or \$0.35 per diluted share. Additionally, effective January 1, 2002, the estimated useful life of \$16.3 million of optical equipment was prospectively changed from seven to five years resulting from changing market conditions for this type of technology. During 2002, most of this optical equipment was written-down and sold, with an adjusted cost of \$0.4 million and carrying value of \$0.3 million remaining at December 31, 2002.

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 buildings 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. In addition, only major refurbishment costs incurred near the end of the estimated useful life of the rental equipment, which extend its useful life, and are subject to certain limitations, are capitalized. Changes in these policies could impact the Company's financial results.

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

In 2002, the Company's RenTelco segment recorded impairment charges of \$24.1 million (For more information, see "Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—General" above). In 2000, an impairment charge of \$1.9 million, including disposal costs, was recorded, primarily related to MMMC's modular equipment being identified as beyond economic repair.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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. Weighted average variable rates are based on implied forward rates in the yield curve at December 31, 2002. The estimate of fair value of the Company's fixed rate debt is based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities. The table below presents principal cash flows by expected annual maturities, related weighted average interest rates and estimated fair value of the Company's notes payable as of December 31, 2002.

Expected Annual Maturities of Notes Payable as of December 31, 2002

(dollar amounts in thousands)

	2003	2004	2005	Thereafter	Total	Estimated Fair Value
Fixed Rate Loan	\$ 8,000	\$ 8,000	\$ 8,000	\$ —	\$ 24,000	\$ 25,320
Average Interest Rate	6.44%	6.44%	6.44%	—	6.44%	
Variable Rate Loans	\$ —	\$ 31,523	\$ —	\$ —	\$ 31,523	\$ 31,523
Average Interest Rate	—	2.72%	—	—	2.72%	

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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To the Shareholders and Board of Directors of McGrath RentCorp:

We have audited the accompanying consolidated balance sheet of McGrath RentCorp (a California corporation) and Subsidiary as of December 31, 2002, and the related consolidated statements of income, shareholders' equity and cash flows the year then ended. 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 audit. The financial statements of McGrath RentCorp and Subsidiary as of December 31, 2001 and for the years ended December 31, 2001 and 2000 were audited by other auditors whose report dated February 8, 2002 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated 2002 financial statements referred to above present fairly, in all material respects, the financial position of McGrath RentCorp and Subsidiary as of December 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

GRANT THORNTON LLP

San Francisco, California
February 3, 2003

MCGRATH RENTCORP
CONSOLIDATED BALANCE SHEETS

<i>(in thousands)</i>	December 31,	
	2002	2001
Assets		
Cash	\$ 4	\$ 4
Accounts Receivable, net of allowance for doubtful accounts of \$1,000 in 2002 and \$1,250 in 2001	33,249	36,896
Rental Equipment, at cost:		
Relocatable Modular Buildings	285,901	281,203
Electronic Test Instruments	39,786	95,419
	<u>325,687</u>	<u>376,622</u>
Less Accumulated Depreciation	(103,788)	(121,100)
Rental Equipment, net	<u>221,899</u>	<u>255,522</u>
Property, Plant and Equipment, net	48,379	51,782
Prepaid Expenses and Other Assets	9,603	10,680
	<u>48,379</u>	<u>51,782</u>
Total Assets	\$ 313,134	\$ 354,884
Liabilities and Shareholders' Equity		
Liabilities:		
Notes Payable	\$ 55,523	\$ 104,140
Accounts Payable and Accrued Liabilities	29,889	30,745
Deferred Income	17,337	18,473
Minority Interest in Subsidiary	3,107	2,946
Deferred Income Taxes, net	68,259	66,985
	<u>174,115</u>	<u>223,289</u>
Total Liabilities	174,115	223,289
Shareholders' Equity:		
Common Stock, no par value—		
Authorized—40,000 shares		
Issued and Outstanding—12,490 shares in 2002 and 12,335 shares in 2001	16,320	12,794
Retained Earnings	122,699	118,801
	<u>139,019</u>	<u>131,595</u>
Total Shareholders' Equity	139,019	131,595
Total Liabilities and Shareholders' Equity	\$ 313,134	\$ 354,884

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

MCGRATH RENTCORP
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
<i>(in thousands, except per share amounts)</i>	2002	2001	2000
Revenues			
Rental	\$ 81,991	\$ 100,722	\$ 94,931
Rental Related Services	17,497	17,827	17,185
Rental Operations	99,488	118,549	112,116
Sales	42,257	39,535	51,024
Other	3,341	1,310	1,018
Total Revenues	145,086	159,394	164,158
Costs and Expenses			
Direct Costs of Rental Operations			
Depreciation of Rental Equipment	15,792	27,270	23,850
Rental Related Services	9,497	10,654	9,304
Impairment of Rental Equipment	24,083	—	1,927
Other	17,839	17,298	16,323
Total Direct Costs of Rental Operations	67,211	55,222	51,404
Cost of Sales	30,541	27,172	36,256
Total Costs	97,752	82,394	87,660
Gross Margin	47,334	77,000	76,498
Selling and Administrative	22,099	24,955	19,982
Income from Operations	25,235	52,045	56,516
Interest	3,982	7,078	8,840
Income before Provision for Income Taxes	21,253	44,967	47,676
Provision for Income Taxes	8,459	17,807	19,762
Income before Minority Interest	12,794	27,160	27,914
Minority Interest in Income of Subsidiary	161	482	670
Net Income	\$ 12,633	\$ 26,678	\$ 27,244
Earnings Per Share:			
Basic	\$ 1.01	\$ 2.18	\$ 2.21
Diluted	\$ 1.00	\$ 2.14	\$ 2.19
Shares Used in Per Share Calculation:			
Basic	12,468	12,232	12,334
Diluted	12,619	12,495	12,428

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

MCGRATH RENTCORP
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<i>(in thousands, except per share amounts)</i>	Common Stock		Retained Earnings	Total Shareholders' Equity
	Shares	Amount		
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
Net Income	—	—	12,633	12,633
Noncash Compensation	7	37	—	37
Exercise of Stock Options, including income tax benefit of \$950	148	3,489	—	3,489
Dividends Declared of \$0.70 Per Share	—	—	(8,735)	(8,735)
Balance at December 31, 2002	12,490	\$16,320	\$122,699	\$ 139,019

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

MCGRATH RENTCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
<i>(in thousands)</i>	2002	2001	2000
Cash Flow from Operating Activities:			
Net Income	\$ 12,633	\$ 26,678	\$ 27,244
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	17,872	29,632	25,716
Impairment of Rental Equipment	24,083	—	1,927
Provision for Doubtful Accounts	1,333	1,282	233
Noncash Compensation	37	551	454
Gain on Sale of Rental Equipment	(6,318)	(6,528)	(6,755)
Gain on Sale of Land	(905)	—	—
Change In:			
Accounts Receivable	2,314	7,509	(20,825)
Prepaid Expenses and Other Assets	1,077	1,315	(6,990)
Accounts Payable and Accrued Liabilities	(962)	(6,065)	12,440
Deferred Income	(1,136)	(768)	9,730
Deferred Income Taxes	2,223	5,332	6,792
Net Cash Provided by Operating Activities	52,251	58,938	49,966
Cash Flow from Investing Activities:			
Purchase of Rental Equipment	(18,918)	(46,877)	(67,389)
Purchase of Property, Plant and Equipment	(490)	(1,608)	(3,430)
Proceeds from Sale of Rental Equipment	18,984	18,015	18,380
Proceeds from Sale of Land	2,719	—	—
Net Cash Provided By (Used in) Investing Activities	2,295	(30,470)	(52,439)
Cash Flow from Financing Activities:			
Net Borrowings (Repayments) under Bank Lines of Credit	(48,617)	(22,736)	16,576
Net Proceeds from the Exercise of Stock Options	2,539	1,211	89
Repurchase of Common Stock	—	—	(7,364)
Payment of Dividends	(8,468)	(7,582)	(6,675)
Net Cash Provided by (Used in) Financing Activities	(54,546)	(29,107)	2,626
Net Increase (Decrease) in Cash	—	(639)	153
Cash Balance, Beginning of Period	4	643	490
Cash Balance, End of Period	\$ 4	\$ 4	\$ 643
Interest Paid During the Period	\$ 4,283	\$ 7,629	\$ 8,504
Income Taxes Paid During the Period	\$ 7,186	\$ 12,475	\$ 12,970
Dividends Declared but not yet Paid	\$ 2,248	\$ 1,981	\$ 1,699

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

MCGRATH RENTCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND BUSINESS

McGrath RentCorp (the Company) is a California corporation organized in 1979. The Company is comprised of three business segments: "Mobile Modular Management Corporation" ("MMMC"), its modular building division, "RenTelco," its electronic test equipment division, and "Enviroplex," its majority-owned subsidiary classroom manufacturing business. Although the Company's primary emphasis is on equipment rentals, sales of equipment occur in the normal course of business.

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. Significant portions of MMC's rental and sale revenues are derived from the educational market and are primarily affected by demand for classrooms which in turn is affected by shifting and fluctuating school populations, the level of state funding to public schools, the need for temporary classroom space during reconstruction of older schools and changes in policies regarding class size. Looking forward, the Company believes that any interruption in the passage of facility bonds, contraction of the Class Size Reduction Program in California, a lack of fiscal funding, or a significant reduction of funding from the State of California to public schools may have a material adverse effect on both rental and sale revenues of the Company.

RenTelco rents and sells electronic test equipment nationally, providing communications and fiber optic test equipment primarily to network systems companies, electrical contractors, local & long distance carriers and manufacturers of communications transmission equipment. RenTelco also provides general-purpose test equipment to electronics, industrial, research and aerospace companies. Significant portions of RenTelco's rental and sale revenues are derived from the telecommunications industry. RenTelco continues to be affected by the severe and prolonged broad-based weakness in the telecommunications industry, which has significantly impacted the Company's overall results for 2002.

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.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of McGrath RentCorp and Enviroplex. All intercompany accounts and transactions have been eliminated in consolidation.

MCGRATH RENTCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Revenue Recognition

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

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

Other revenue is recognized when earned and primarily includes interest income on sales type leases and rental income on facility rentals. In 2002, other revenue also includes a \$1,250,000 reimbursement of costs and expenses associated with a terminated merger agreement (see Note 9) and \$905,000 gain on land sales related to excess property not part of existing operating facilities.

Depreciation of Rental Equipment

Rental equipment is depreciated on a straight-line basis for financial reporting purposes and on an accelerated basis for income tax purposes. The costs of major refurbishment of relocatable modular buildings are capitalized to the extent the refurbishment significantly adds value or extends the life to the equipment. Maintenance and repairs are expensed as incurred.

Effective January 1, 2002, the Company prospectively revised the estimated residual value of its relocatable modular buildings from 18% to 50% of original cost, except for accessories and refurbishments which have no residual value. The change in estimate was based on actual used equipment sales experience, and management believes that this change better reflects the future expected residual values of the modular equipment. Historical results demonstrate that upon sale, the Company recovers a higher percentage of its modular equipment cost than previously estimated. The Company’s proactive repair and maintenance program is a key factor contributing to the high recovery of its equipment’s cost upon sale. For 2002, the effect of the change was a decrease in depreciation expense of \$7,295,000 and an increase in net income of \$4,392,000, or \$0.35 per diluted share.

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

Relocatable modular buildings and accessories	3 to 18 years, 0% to 50% residual value
Electronic test instruments and accessories	5 to 8 years, no residual value

Costs of Rental Related Services

Costs of rental related services are primarily associated with relocatable modular building leases and consists 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.

Impairment of Rental Equipment

Prior to 2002, the Company evaluated the carrying value of rental equipment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets". In 2002, the evaluation was completed in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which superseded SFAS No. 121. There was no significant impact resulting from the application of SFAS No. 144 when compared to the application under SFAS No. 121. Under SFAS 144, rental equipment is reviewed for impairment whenever events or circumstances have occurred that would indicate the carrying amount may not be fully recoverable. A key element in determining the recoverability of the rental equipment's carrying value is the Company's outlook as to the future market conditions for its equipment. If the carrying amount is not fully recoverable, an impairment loss is recognized to reduce the carrying amount to fair value. The Company determines fair value based upon the condition of the equipment and the projected net cash flows from its sale considering current market conditions. Additionally, if the Company decides to sell or otherwise dispose of the rental equipment, it is classified as held for sale in "Rental Equipment, at cost:" on the Consolidated Balance Sheets and carried at the lower of cost or fair value, less costs to sell or dispose, and depreciation expense is no longer recorded. Impairment charges are separately captioned on the Consolidated Statements of Income within Direct Costs of Rental Operations.

In 2002, the Company's RenTelco segment recorded noncash impairment charges of \$24,083,000 resulting from the depressed and low projected demand for RenTelco's rental products coupled with high inventory levels, especially communications equipment. RenTelco's business activity levels are directly attributable to the severe and prolonged broad-based weakness in the telecommunications industry. RenTelco has limited visibility as to when the recovery in this sector will occur. As of December 31, 2002, the carrying value of communications equipment was \$8,071,000 of which \$632,000 is classified as held for sale and included in "Rental Equipment, at cost: Electronics Test Instruments" on the Consolidated Balance Sheets. RenTelco will continue to use its best efforts to sell the rental equipment determined to be in excess of the required levels to meet projected customer demand. There can be no assurance that RenTelco will be successful in these efforts.

In 2000, an impairment charge of \$1,927,000, including disposal costs, was recorded, primarily related to MMMC's modular equipment being identified as beyond economic repair.

Other Direct Costs of Rental Operations

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

Cost of Sales

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

Warranty Reserves

Sales of new relocatable modular buildings, electronic test equipment and related accessories 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 as warranty costs have not been significant.

MCGRATH RENTCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Property, Plant and Equipment

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

Property, plant and equipment consist of the following:

<i>(dollar amounts in thousands)</i>	Estimated Useful Life In Years	December 31,	
		2002	2001
Land		\$ 17,703	\$ 19,303
Land improvements	20–50	21,640	22,003
Buildings	30	11,477	11,439
Furniture, Office and Computer Equipment	5–10	4,781	5,341
Machinery and Service Equipment	5–20	2,288	2,161
		57,889	60,247
Less Accumulated Depreciation		(9,510)	(8,465)
		\$ 48,379	\$ 51,782

Income Taxes

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

Earnings Per Share

Basic earnings per share (“EPS”) is computed as net income divided by the weighted average number of shares of common stock outstanding for the period. Diluted EPS is computed as net income divided by the weighted average number of shares outstanding of common stock and common stock equivalents for the period, including the dilutive effects of stock options and other potentially dilutive securities. Common stock equivalents result from dilutive stock options computed using the treasury stock method and the average share price for the reported period. The weighted average number of dilutive options outstanding at December 31, 2002, 2001 and 2000 were 150,267, 263,054 and 94,247, respectively. Stock options to purchase 17,000 shares in 2001 and 287,500 shares in 2000 of the Company’s common stock were not included in the computation of diluted EPS because the exercise price exceeded the average market price for that year and the effect would have been anti-dilutive.

Accounts Receivable and Concentration of Credit Risk

The Company’s accounts receivable consist of amounts due from customers for rentals, sales, financed sales and unbilled MMMC amounts for the portion of end of lease services earned, which were negotiated as part of the lease agreement. 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. The Company records an allowance for doubtful accounts by charging operations in amounts equal to the estimated losses expected to be incurred in the collection of the accounts. The estimated losses are based on historical collection experience in conjunction with an evaluation of the current status of the existing accounts. Customer accounts are written off against the allowance for doubtful accounts when an account is determined to be uncollectible. In 2002 and 2001, write-offs incurred were primarily related to RenTelco’s receivables, attributed to

MCGRATH RENTCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

the severe and prolonged broad-based weakness in the telecommunications industry. The allowance for doubtful accounts activity was as follows:

<i>(in thousands)</i>	2002	2001
Beginning Balance, January 1	\$ 1,250	\$ 650
Provision for doubtful accounts	1,333	1,282
Write-offs, net of recoveries	(1,583)	(682)
Ending Balance, December 31	\$ 1,000	\$ 1,250

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of trade accounts receivable. A significant portion of the Company's total revenues is derived from the educational market. Within the educational market, modular rentals and sales to California public school districts comprised approximately 40%, 34% and 35% of the Company's consolidated rental and sales revenues for 2002, 2001, and 2000, respectively, with no one customer accounting for more than 10% of the Company's consolidated revenues in any single year. A lack of fiscal funding or a significant reduction of funding from the State of California to public schools could have a material adverse effect on the Company.

Fair Value of Financial Instruments

The Company believes that the carrying amounts for cash, accounts receivable, accounts payable and notes payable approximate their fair value except for fixed rate debt included in notes payable which have an estimated fair value of \$25,320,000 and \$33,220,000 compared to the recorded value of \$24,000,000 and \$32,000,000 as of December 31, 2002 and 2001, respectively. The estimates of fair value of the Company's fixed rate debt are based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities.

Stock Options

The Company accounts for stock-based compensation plans in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," under which compensation cost is recorded as the difference between the fair value and the exercise price at the date of grant, and is recorded on a straight-line basis over the vesting period of the underlying options. The Company has adopted the disclosure only provisions of SFAS No. 123, "Accounting for Stock Based Compensation". No compensation expense has been recognized in the accompanying financial statements as the option terms are fixed and the exercise price equals the market price of the underlying stock on the date of grant for all options granted by the Company.

Had compensation cost for the stock-based compensation plans been determined based upon the fair value at grant dates for awards under those plans consistent with the method prescribed by SFAS 123, net income would have been reduced to the pro forma amounts indicated below:

<i>(in thousands, except per share amounts)</i>	Year Ended December 31,		
	2002	2001	2000
Net Income, as reported	\$ 12,633	\$ 26,678	\$ 27,244
Pro Forma net income	12,000	26,094	26,826
Earnings Per Share:			
Basic—as reported	1.01	2.18	2.21
Basic—pro forma	0.96	2.13	2.17
Diluted—as reported	1.00	2.14	2.19
Diluted—pro forma	0.95	2.09	2.16

MCGRATH RENTCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	Year Ended December 31,		
	2002	2001	2000
Risk-free interest rates	3.8%	5.0%	5.9%
Expected dividend yields	3.1%	1.7%	2.9%
Expected volatility	36.7%	36.0%	26.5%
Expected option life (in years)	7.5	7.5	7.5

The fair values of the options granted as of December 31, 2002, 2001 and 2000 were \$1,463,000, \$1,949,000 and \$2,115,000, respectively. The weighted average fair value of grants are \$7.17, \$8.31 and \$5.03 during the year ended 2002, 2001 and 2000, respectively.

Goodwill and Intangible Assets

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS 141 provides new guidance on the accounting for a business combination as of the date a business combination is completed. Specifically, it requires use of the purchase method of accounting for all business combinations initiated after June 30, 2001, thereby eliminating the use of the pooling-of-interests method. SFAS 142 establishes new guidance on how to account for goodwill and intangible assets after a business combination is completed. Among other things, it requires that goodwill and certain other intangible assets will no longer be amortized and will instead be tested for impairment at least annually and written down only when impaired. The Company adopted both these statements in 2001. The effect of adopting SFAS 141 and SFAS 142 did not impact the Company's financial position, results of operations or cash flows.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in determining reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during each period presented. Actual results could differ from those estimates. The most significant estimates included in the financial statements are the future cash flows and fair values used to determine the recoverability of the rental equipment's carrying value, the various assets' useful lives and residual values, and the allowance for doubtful accounts.

Reclassifications

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

MCGRATH RENTCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 3. FINANCED LEASE RECEIVABLES

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

<i>(in thousands)</i>	December 31,	
	2002	2001
Gross minimum lease payments receivable	\$ 3,295	\$ 4,910
Less—unearned interest	(682)	(894)
Net investment in sales type lease receivables	\$ 2,613	\$ 4,016

As of December 31, 2002, the future minimum lease payments under non-cancelable leases to be received in 2003 and thereafter are as follows:

<i>(in thousands)</i>	
Year Ended December 31,	
2003	\$ 1,994
2004	686
2005	347
2006	169
2007	50
2008 and thereafter	49
Total minimum future lease payments	\$ 3,295

NOTE 4. NOTES PAYABLE

Notes Payable consist of the following:

<i>(in thousands)</i>	December 31,	
	2002	2001
Senior Notes	\$ 24,000	\$ 32,000
Unsecured Revolving Lines of Credit	31,523	72,140
	\$ 55,523	\$ 104,140

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. 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, 2002 was \$91,386,380), (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, 2002, the Company was in compliance with all covenants related to these notes.

MCGRATH RENTCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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. 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, 2002 was \$115,337,031), (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, 2002, 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 which will expire on June 30, 2004. At December 31, 2002, the Company has capacity to borrow up to an additional \$93,477,000 under existing bank lines of credit.

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

<i>(dollar amounts in thousands)</i>	Year Ended December 31,	
	2002	2001
Maximum amount outstanding	\$ 72,140	\$ 93,373
Average amount outstanding	\$ 55,137	\$ 81,595
Weighted average interest rate	3.57%	5.55%
Effective interest rate at end of period	2.72%	3.20%
Prime interest rate at end of period	4.25%	4.75%

NOTE 5. INCOME TAXES

The provision for income taxes consists of the following:

<i>(in thousands)</i>	Year Ended December 31,		
	2002	2001	2000
Current	\$ 6,236	\$ 12,475	\$ 12,970
Deferred	2,223	5,332	6,792
	\$ 8,459	\$ 17,807	\$ 19,762

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

	Year Ended December 31,		
	2002	2001	2000
Federal statutory rate	35.00%	35.00%	35.00%
State taxes, net of federal benefit	5.19	5.23	7.46
Other	(0.39)	(0.63)	(1.01)
	39.80%	39.60%	41.45%

MCGRATH RENTCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

<i>(in thousands)</i>	December 31,	
	2002	2001
Deferred Tax Liabilities:		
Accelerated Depreciation	\$ 71,205	\$ 70,542
Prepaid Costs Currently Deductible	2,307	2,657
Other	717	639
Total Deferred Tax Liabilities	74,229	73,838
Deferred Tax Assets:		
Accrued Costs Not Yet Deductible	4,237	4,050
Deferred Revenues	1,331	2,301
Allowance for Doubtful Accounts	402	502
Total Deferred Tax Assets	5,970	6,853
Deferred Income Taxes, net	\$ 68,259	\$ 66,985

In 2002, the Company obtained a tax benefit of \$950,000 primarily from the early disposition of stock obtained through the exercise of incentive stock options by employees. The tax benefit was recorded as common stock in conjunction with the proceeds received from the exercise of the stock options.

NOTE 6. BENEFIT PLANS

Stock Option Plans

McGrath RentCorp adopted a 1998 Stock Option Plan (the “1998 Plan”), effective March 9, 1998, as amended, 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 McGrath RentCorp. 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, 2002, 708,000 options have been granted with exercise prices ranging from \$15.63 to \$25.55, options have been exercised for the purchase of 136,625 shares, options for 128,975 shares have been terminated, and options for 442,400 remain outstanding under the 1998 Plan. Most of these options vest over 5 years and expire 10 years after grant. To date, no options have been issued to any of McGrath RentCorp’s advisors. As of December 31, 2002, 1,420,975 options remained available to issue under the 1998 plan.

McGrath RentCorp 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 McGrath RentCorp. 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. 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. As of December 31, 2002, options for 49,198 shares with an exercise price of \$10.75 per share remain outstanding.

MCGRATH RENTCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Option activity and options exercisable including the weighted average exercise price for the three years ended December 31, 2002 are as follows:

	Year Ended December 31,					
	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding at January 1,	628,493	\$ 15.87	659,610	\$ 15.87	516,522	\$ 15.53
Options granted during the year	79,000	22.52	96,500	19.55	187,000	16.94
Options exercised during the year	(148,015)	17.15	(119,117)	10.17	(9,948)	8.93
Options terminated during the year	(67,880)	16.45	(8,500)	20.25	(33,964)	18.76
Options outstanding at December 31,	491,598	18.73	628,493	17.64	659,610	15.87
Options exercisable at December 31,	214,003	18.67	234,458	17.67	246,530	14.11

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, 2002:

Exercise Price	Options Outstanding			Options Exercisable		
	Number Outstanding at 12/31/02	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at 12/31/02	Weighted Average Exercise Price	
\$10.75	49,198	3.50	\$ 10.75	25,303	\$ 10.75	
15.63	14,500	7.33	15.63	4,500	15.63	
15.94	12,000	7.92	15.94	4,800	15.94	
17.00	81,000	7.83	17.00	25,500	17.00	
18.25	77,750	6.92	18.25	37,350	18.25	
19.38	8,750	7.75	19.38	1,875	19.38	
19.75	65,750	8.17	19.75	18,625	19.75	
20.25	10,000	5.50	20.25	9,500	20.25	
20.81	71,650	5.25	20.81	66,050	20.81	
21.69	10,000	5.67	21.69	8,500	21.69	
22.52	79,000	9.92	22.52	—	22.52	
25.55	12,000	8.92	25.55	12,000	25.55	
10.75 – 25.55	491,598	7.18	18.73	214,003	18.67	

Employee Stock Ownership Plan

In 1985, McGrath RentCorp established an Employee Stock Ownership Plan. Under the terms of the plan, as amended, McGrath RentCorp makes annual contributions in the form of cash or common stock of McGrath RentCorp to a trust for the benefit of eligible employees. The amount of the contribution is determined annually by the Board of Directors. Cash contributions of \$400,000 were approved for 2002 and 2001 and \$800,000 for 2000 and expensed.

Long Term Bonus Plans

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, 2002, 210,243 shares of common stock had been granted, of which 198,995 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 45,354 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, 2002, no shares of common stock had yet been granted or vested under the 2000 LTB Plan. Compensation expense for 2002, 2001 and 2000 under the plans was \$37,000, \$551,000 and \$454,000, 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, 2002, 2001 and 2000, the unvested shares were 11,248, 25,512 and 40,409, respectively, with the related weighted average grant-date fair value of these unvested shares of \$25.02, \$23.13 and \$20.45 per share, respectively.

401(k) Plans

In 1995, McGrath RentCorp established a contributory retirement plan, the McGrath RentCorp 401(k) Plan, as amended, covering eligible employees of McGrath RentCorp with at least three months of service. The McGrath RentCorp 401(k) Plan provides that each participant may annually contribute an elected percentage of his or her salary, not to exceed the statutory limit. McGrath RentCorp, at its discretion, may make matching contributions; however, no contributions have been made to date under this plan.

In 1997, Enviroplex established a contributory retirement plan, the Enviroplex 401(k) Plan, as amended, covering eligible employees of Enviroplex with at least three months of service. The Enviroplex 401(k) Plan provides that each participant may annually contribute an elected percentage of his or her salary, not to exceed the statutory limit. Enviroplex at its discretion may make a matching contribution. Enviroplex made contributions of \$32,000, \$40,000 and \$22,000 in 2002, 2001 and 2000, respectively.

NOTE 7. STOCKHOLDERS EQUITY

On July 2, 2001, McGrath RentCorp entered into a Stock Exchange Agreement with the minority shareholders of Enviroplex to increase its ownership in Enviroplex from 73% to 81%. McGrath RentCorp 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 McGrath RentCorp's closing price of \$24.14 per share on June 29, 2001, the last trading day immediately preceding the effective date of the transaction. 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, which were amortized in full during the remainder of 2001, and goodwill of \$977,000. In accordance with SFAS 142, goodwill is not being amortized and is evaluated for impairment annually. The Company does not have any other goodwill or intangible assets.

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 2000, the Company repurchased 450,942 shares of common stock for an aggregate repurchases price of \$7,364,000 or an average price of \$16.33 per share. During 2001 and 2002, there were no repurchases of common stock. As of December 31, 2002, 805,800 shares remained authorized for repurchase.

MCGRATH RENTCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Subsequent to December 31, 2002, the Company repurchased 462,900 shares of common stock for an aggregate repurchase price of \$10,207,000 or an average price of \$22.05 per share. As of March 20, 2003, 1,000,000 shares remain authorized for repurchase.

NOTE 8. CONTINGENCIES

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

NOTE 9. TERMINATED MERGER AGREEMENT

On July 1, 2002, McGrath RentCorp exercised its right to terminate the merger agreement, dated as of December 20, 2001, between McGrath RentCorp and Tyco Acquisition Corp. 33 ("Tyco"), a subsidiary of Tyco International Ltd. In August 2002, Tyco paid \$1.25 million to McGrath RentCorp as reimbursement of certain costs and expenses incurred in connection with the proposed merger. In connection with the payment, McGrath RentCorp and Tyco have agreed that neither of them will have any claims against the other or their affiliates in connection with the merger agreement. The \$1.25 million payment was recorded in "Other" revenues, merger-related costs of \$593,000 in 2002 and \$1,893,000 in 2001, are included in "Selling and Administrative" expenses on the Consolidated Statements of Income.

NOTE 10. 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. The Corporate segment in the table below is for merger related items and gain on land sales both of which were not specifically allocated to a reportable segment. 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 assets by business segment. Summarized financial information for the years ended December 31, 2002, 2001 and 2000 for the Company's reportable segments is shown in the following table:

MCGRATH RENTCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEGMENT DATA <i>(in thousands)</i>	<u>Modulars</u>	<u>Electronics</u>	<u>Enviroplex</u>	<u>Corporate¹</u>	<u>Consolidated</u>
Year Ended December 31,					
2002					
Rental Revenues	\$ 66,214	\$ 15,777	\$ —	\$ —	\$ 81,991
Rental Related Services Revenues	16,936	561	—	—	17,497
Sales and Other Revenues ²	20,802	10,153	12,488	2,155	45,598
Total Revenues	103,952	26,491	12,488	2,155	145,086
Depreciation of Rental Equipment	7,169	8,623	—	—	15,792
Impairment of Rental Equipment	—	24,083	—	—	24,083
Interest Expense (Income) Allocation	3,451	749	(218)	—	3,982
Income (Loss) before Provision for Income Taxes ³	40,412	(22,023)	1,302	1,562	21,253
Rental Equipment Acquisitions	15,895	3,023	—	—	18,918
Accounts Receivable, net (period end)	27,368	3,896	1,985	—	33,249
Rental Equipment, at cost (period end)	285,901	39,786	—	—	325,687
Rental Equipment, net book value (period end)	200,593	21,306	—	—	221,899
Utilization (period end) ⁴	85.2%	41.6%			
Average Utilization ⁴	85.9%	38.2%			

MCGRATH RENTCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

SEGMENT DATA (Continued) <i>(in thousands)</i>	<u>Modulars</u>	<u>Electronics</u>	<u>Enviroplex</u>	<u>Corporate¹</u>	<u>Consolidated</u>
Year Ended December 31,					
2001					
Rental Revenues	\$ 63,542	\$ 37,180	\$ —	\$ —	\$ 100,722
Rental Related Services Revenues	17,117	710	—	—	17,827
Sales and Other Revenues	16,402	9,450	14,993	—	40,845
Total Revenues	97,061	47,340	14,993	—	159,394
Depreciation of Rental Equipment	13,489	13,781	—	—	27,270
Impairment of Rental Equipment	—	—	—	—	—
Interest Expense (Income) Allocation	5,321	2,135	(378)	—	7,078
Income (Loss) before Provision for Income Taxes ³	28,216	15,963	2,681	(1,893)	44,967
Rental Equipment Acquisitions	30,323	16,554	—	—	46,877
Accounts Receivable, net (period end)	22,969	8,957	4,970	—	36,896
Rental Equipment, at cost (period end)	281,203	95,419	—	—	376,622
Rental Equipment, net book value (period end)	197,764	57,758	—	—	255,522
Utilization (period end) ⁴	86.2%	34.4%			
Average Utilization ⁴	85.4%	50.4%			
2000					
Rental Revenues	\$ 56,779	\$ 38,152	\$ —	\$ —	\$ 94,931
Rental Related Services Revenues	16,462	723	—	—	17,185
Sales and Other Revenues	24,254	10,796	16,992	—	52,042
Total Revenues	97,495	49,671	16,992	—	164,158
Depreciation of Rental Equipment	12,546	11,304	—	—	23,850
Impairment of Rental Equipment	1,677	250	—	—	1,927
Interest Expense (Income) Allocation	6,725	2,459	(344)	—	8,840
Income (Loss) 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 (period end)	28,816	12,902	3,969	—	45,687
Rental Equipment, at cost (period end)	261,081	92,404	—	—	353,485
Rental Equipment, net book value (period end)	187,059	60,343	—	—	247,402
Utilization (period end) ⁴	84.9%	63.5%			
Average Utilization ⁴	82.3%	61.4%			

- 1 Corporate includes the impact of nonrecurring merger related items in 2002 and 2001 and the gain on land sales in 2002, which are not allocated to a specific segment.
- 2 For 2002, Corporate Sales and Other Revenues includes a \$1,250,000 nonrecurring reimbursement of merger related costs and expenses and \$905,000 gain on land sales.
- 3 In addition to the items in Note 2 above, Corporate Income before Provision for Income Taxes for 2002 and 2001 also includes nonrecurring merger related costs and expenses of \$593,000 and \$1,893,000, respectively.
- 4 Utilization is calculated each month by dividing the cost of rental equipment on rent by the total cost of rental equipment excluding new equipment inventory and accessory equipment. The average utilization for the period is calculated using the average costs of rental equipment.

MCGRATH RENTCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 11. QUARTERLY FINANCIAL INFORMATION (unaudited)

Quarterly financial information for each of the two years ended December 31, 2002 is summarized below:

	2002				
	First	Second	Third	Fourth	Year
<i>(in thousands, except per share amounts)</i>					
Operations Data					
Rental revenues	\$ 21,292	\$ 20,658	\$ 20,202	\$ 19,839	\$ 81,991
Total revenues	31,764	36,476	41,950	34,896	145,086
Gross margin	3,079	5,271	20,406	18,578	47,334
Income (loss) from operations	(2,900)	(769)	15,322	13,582	25,235
Income (loss) before income taxes	(4,047)	(1,846)	14,371	12,775	21,253
Net income (loss)	(2,366)	(1,205)	8,493	7,711	12,633
Earnings (loss) per share:					
Basic	\$ (0.19)	\$ (0.10)	\$ 0.68	\$ 0.62	\$ 1.01
Diluted	\$ (0.19)	\$ (0.10)	\$ 0.68	\$ 0.61	\$ 1.00
Dividends declared per share	\$ 0.16	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.70
Shares used in per share calculation:					
Basic	12,427	12,475	12,483	12,488	12,468
Diluted	12,674	12,648	12,556	12,572	12,619
Balance Sheet Data					
Rental equipment, net	\$241,870	\$228,199	\$225,322	\$221,899	\$221,899
Total assets	336,273	324,117	327,956	313,134	313,134
Notes payable	92,257	88,848	72,698	55,523	55,523
Shareholders' equity	131,766	128,419	132,469	139,019	139,019
2001					
	First	Second	Third	Fourth	Year
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

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

On July 9, 2002, the Board of Directors of the Company determined in consultation with and recommendation of its Audit Committee, to appoint Grant Thornton LLP to serve as the Company's independent public accountants, replacing Arthur Andersen LLP ("Andersen"). The Company dismissed Andersen on the same date. This determination followed the Company's decision to seek proposals from independent public accounts to audit the financial statements of the Company.

The audit reports of Andersen on the consolidated financial statements of the Company as of and for the fiscal years ended December 31, 2001 and 2000 did not contain an adverse or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

For the two years ended December 31, 2001 and through July 9, 2002, there were no disagreements between the Company and Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Andersen's satisfaction, would have caused Andersen to make reference to the subject matter of the disagreement in connection with its reports on the Company's consolidated financial statements for such years.

None of the reportable events described under Item 304(a)(1)(v) of Regulation S-K occurred during the Company's two years ended December 31, 2001, or through July 9, 2002.

The Company provided Andersen a copy of the foregoing disclosures. While the Company had received no information from Andersen that Andersen had a basis for disagreement with such statements, the Company was informed that, in light of recent developments at Andersen at that time, Andersen had ceased providing written representations concerning changes in a registrant's certifying accountant.

For the two years ended December 31, 2001 and through July 9, 2002, the Company did not consult Grant Thornton LLP with respect to any of the matters set forth in Item 304(a)(2)(i) and (ii) of Regulation S-K.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated by reference to McGrath RentCorp's definitive Proxy Statement with respect to its Annual Shareholders' Meeting to be held May 28, 2003, which will be filed with the Securities and Exchange Commission by not later than April 30, 2003.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to McGrath RentCorp's definitive Proxy Statement with respect to its Annual Shareholders' Meeting to be held May 28, 2003, which will be filed with the Securities and Exchange Commission by not later than April 30, 2003.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to McGrath RentCorp's definitive Proxy Statement with respect to its Annual Shareholders' Meeting to be held May 28, 2003, which will be filed with the Securities and Exchange Commission by not later than April 30, 2003.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to McGrath RentCorp's definitive Proxy Statement with respect to its Annual Shareholders' Meeting to be held May 28, 2003, which will be filed with the Securities and Exchange Commission by not later than April 30, 2003.

ITEM 14. CONTROLS AND PROCEDURES

The Company's management, under the supervision and with the participation of the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures within 90 days before the filing date of this annual report. Based on that evaluation, the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to their evaluation.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

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

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Report of Independent Public Accountants	23
Consolidated Financial Statements	
Consolidated Balance Sheets as of December 31, 2002 and 2001	24
Consolidated Statements of Income for the Years Ended December 31, 2002, 2001 and 2000	25
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2002, 2001 and 2000	26
Consolidated Statements of Cash Flows for the Years Ended December 31, 2002, 2001 and 2000	27
Notes to Consolidated Financial Statements	28

2. Financial Statement Schedules. None

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

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

Schedules and exhibits required by Article 5 of Regulation S-X other than those listed are omitted because they are not required, are not applicable, or equivalent information has been included in the consolidated financial statements, and notes thereto, or elsewhere herein.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 20, 2003

MCGRATH RENTCORP

by: /s/ Robert P. McGrath

ROBERT P. McGRATH
Chairman of the Board
and Chief Executive Officer

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

<u>Name</u>	<u>Title</u>	<u>Date</u>
/s/ William J. Dawson _____ WILLIAM J. DAWSON	Director	March 20, 2003
/s/ Robert C. Hood _____ ROBERT C. HOOD	Director	March 20, 2003
/s/ Joan M. McGrath _____ JOAN M. McGRATH	Director	March 20, 2003
/s/ Robert P. McGrath _____ ROBERT P. McGRATH	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 20, 2003
/s/ Thomas J. Sauer _____ THOMAS J. SAUER	Vice President and Chief Financial Officer (Principal Accounting Officer)	March 20, 2003
/s/ Delight Saxton _____ DELIGHT SAXTON	Director	March 20, 2003
/s/ Dennis P. Stradford _____ DENNIS P. STRADFORD	Director	March 20, 2003
/s/ Ronald H. Zech _____ RONALD H. ZECH	Director	March 20, 2003

McGRATH RENTCORP
CERTIFICATION

I, Robert P. McGrath, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of McGrath RentCorp;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ ROBERT P. MCGRATH

Robert P. McGrath
Chief Executive Officer

Date: March 20, 2003

McGRATH RENTCORP
INDEX TO EXHIBITS

<i>Number</i>	<i>Description</i>	<i>Method of Filing</i>
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.
2.1.3	Press Release regarding the termination of the Agreement and Plan of Merger, entered into 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 July 1, 2002), 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.
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.
10.2	McGrath RentCorp 1998 Stock Option Plan as amended and restated on November 22, 2002	Filed herewith.
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.
10.3	Exemplar Form of the Directors, Officers and Other Agents Indemnification Agreements	Filed as exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 (filed March 18, 2002), and incorporated herein by reference.
10.4	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.

McGRATH RENTCORP
INDEX TO EXHIBITS

<u>Number</u>	<u>Description</u>	<u>Method of Filing</u>
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 as exhibit 10.5.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 (filed March 18, 2002), and incorporated herein by reference.
10.6	Enviroplex Stock Exchange Agreement dated June 2, 2001, by and between McGrath RentCorp, Joe G. Sublett and Donald M. Curtis	Filed as exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 (filed March 18, 2002), and incorporated herein by reference.
10.7	Transitional Services Agreement, dated as of December 20, 2001, by and between McGrath RentCorp and Robert P. McGrath	Filed as exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 (filed March 18, 2002), and incorporated herein by reference.
10.8	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 as exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 (filed March 18, 2002), and incorporated herein by reference.
10.9	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 as exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 (filed March 18, 2002), and incorporated herein by reference.
10.10	McGrath RentCorp Employee Stock Ownership Plan, as amended and restated on June 20, 1994	Filed herewith.
10.10.1	Amendment No. 1 to McGrath RentCorp Employee Stock Ownership Plan, dated, July 2, 1996	Filed herewith.
10.10.2	Amendment No. 2 to McGrath RentCorp Employee Stock Ownership Plan, dated October 16, 2001	Filed herewith.
10.10.3	Amendment No. 3 to McGrath RentCorp Employee Stock Ownership Plan, dated November 22, 2002	Filed herewith.
10.11	McGrath RentCorp Employee Stock Ownership Trust Agreement, as amended and restated on June 27, 1994	Filed herewith.
10.11.1	Trust Amendment No. 1 to McGrath RentCorp Employee Stock Ownership Trust Agreement, dated July 31, 2001	Filed herewith.
16	Change in Certifying Accountant	Filed as the Company's Current Report on Form 8-K (filed July 15, 2002), and incorporated herein by reference.
23	Written Consent of Grant Thornton LLP	Filed herewith.

The exhibits listed above may be obtained from McGrath RentCorp, 5700 Las Positas Road, Livermore, California 94551-7800 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 <http://www.mgrc.com> for the Company's most recent SEC filings, which are available as soon as reasonably practicable after the Company electronically files such material with, or furnishes such material to, the SEC.

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MCGRATH RENTCORP

1998 STOCK OPTION PLAN

(as amended November 16, 2001)

(as amended and restated November 22, 2002)

MCGRATH RENTCORP

1998 STOCK OPTION PLAN
(as amended November 16, 2001)
(as amended and restated November 22, 2002)

SECTION 1. PURPOSE OF PLAN; ADMINISTRATION.

1.1 Purpose. The intent and purpose of this 1998 Stock Option Plan (the "PLAN") is to strengthen McGrath RentCorp, a California corporation ("MCGRATH"), by providing a means to attract and retain competent personnel and to provide to participating officers, key employees, directors and others added incentive for high levels of performance and for unusual efforts to improve the financial performance of MCGRATH. The purposes may be achieved through the grant of options to purchase common stock of MCGRATH (the "COMMON STOCK"). The options granted under the PLAN may be incentive stock options ("INCENTIVE OPTIONS") as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "CODE"), or options which are not incentive stock options as so defined in that code section ("NON-QUALIFIED OPTIONS").

1.2 Administration. This PLAN shall be administered by the Board of Directors of MCGRATH (the "BOARD"). Any action of the BOARD with respect to the administration of the PLAN shall be taken pursuant to a majority vote, or by the written consent of all of its members. Subject to the express provisions of the PLAN, the BOARD shall have the authority to construe and interpret the PLAN, to define the terms used herein, to prescribe, amend and rescind rules and regulations relating to the administration of the PLAN, and to make all other determinations necessary or advisable for the administration of the PLAN. The determinations of the BOARD on the foregoing matters shall be conclusive. Subject to the express provisions of the PLAN, the BOARD shall determine from the eligible class the individuals who shall receive options, and the terms and provisions of such options (which need not be identical). No member of the BOARD shall be liable for any action, failure to act, determination or interpretation made in good faith with respect to the PLAN or any transaction hereunder.

1.3 Participation. Only officers, key employees and directors of MCGRATH or of any subsidiary of MCGRATH, and other persons who provide significant valuable services to MCGRATH or any subsidiary of MCGRATH, shall be eligible for selection to participate in the PLAN upon approval by the BOARD. INCENTIVE OPTIONS may be granted only to persons who are employees of MCGRATH or a subsidiary of MCGRATH. An individual who has been granted an option (a "PARTICIPANT") may, if otherwise eligible, be granted additional options if the BOARD shall so determine.

1.4 Stock Subject to the PLAN. Subject to the adjustments provided in Section 3.1 hereof, the stock to be offered under the PLAN shall be shares of authorized but unissued COMMON STOCK. The aggregate amount of COMMON STOCK to be issued under this PLAN shall not exceed two million (2,000,000) shares, subject to adjustment as set forth in Section 3.1 of this PLAN. If any option granted hereunder shall expire or terminate for any reason without having been fully exercised, the unpurchased shares subject thereof shall again be available for the purposes of this PLAN.

1.5 Option Agreement. All options granted hereunder shall be evidenced by a written stock option agreement, which agreement shall specify whether the option granted is intended to be an INCENTIVE OPTION or to be a NON-QUALIFIED OPTION. The BOARD may provide for additional terms and conditions in such stock option agreements not inconsistent with the terms and conditions of this Plan, and in the case of INCENTIVE OPTIONS, terms and provisions not prohibited by Section 422 of the CODE.

SECTION 2. STOCK OPTION TERMS.

2.1 Option Price. The purchase price of the COMMON STOCK covered by each option shall be determined by the BOARD, but shall not be less than 100% of the FAIR MARKET VALUE of such stock on the date of grant of the option.

2.1.1 If an INCENTIVE OPTION is granted to an employee who, at the time such option is granted, owns or is deemed to own more than ten percent (10%) of the total combined voting power of all classes of stock of MCGRATH, the option price shall be at least 110% of the FAIR MARKET VALUE of the COMMON STOCK on the date of grant of the option.

2.1.2 "FAIR MARKET VALUE" shall mean: (1) the closing price of the COMMON STOCK as reported by the NASDAQ Stock Market or by any national exchange on which the COMMON STOCK may hereafter be listed, or if no trading occurred on such date for the next preceding date on which such trading occurred; or (2) if there is no trading of the COMMON STOCK either on the NASDAQ Stock Market or on a national exchange, the value established by the BOARD in

good faith.

2.1.3 The purchase price of any shares purchased shall be paid in full in cash or by check acceptable to MCGRATH at the time of each purchase; provided that, subject to the discretion of the BOARD and upon receipt of all regulatory approvals, the person exercising the option may deliver shares of COMMON STOCK in payment of the exercise price. Such stock shall be valued at its FAIR MARKET VALUE on the date immediately preceding the day of exercise of the option.

2.2 Option Period. Except as provided below, each option and all rights or obligations thereunder shall expire on such date as the BOARD shall determine, but not later than the day before the tenth (10th) anniversary of the date on which the option is granted (the "EXPIRATION DATE"), and shall be subject to earlier termination as hereinafter provided.

2.2.1 If an INCENTIVE OPTION is granted to an employee, who at the time the option is granted owns or is deemed to own more than ten percent (10%) of the total combined voting power of all classes of stock of MCGRATH, each such option and all rights or obligations thereunder shall expire as the BOARD shall determine but not later than the day before the fifth (5th) anniversary of the date on which the option is granted (the "EXPIRATION DATE").

2.3 Exercise of Options. Each option shall become exercisable and the total number of shares subject thereto shall be purchasable, in such installments, which need not be equal, as the BOARD shall determine (subject to Section 2.10 of this PLAN in the case of an INCENTIVE OPTION); provided, however, that if the PARTICIPANT shall not purchase in any given installment period all of the shares purchasable, the right to purchase any shares not purchased in such installment period shall continue until the EXPIRATION DATE or sooner termination of such PARTICIPANT's option. The BOARD may, at any time after grant of the option and from time to time, increase the number of shares purchasable in any installment, subject to the restrictions imposed by Section 422 of the CODE in the case of INCENTIVE OPTIONS, but may not increase the total number of shares subject to the option. No option or installment thereof shall be exercisable except in respect of whole shares, and fractional share interests shall be disregarded.

2.4 Non-Transferability of Options. An option granted under this PLAN shall, by its terms, be non-transferable by the PARTICIPANT other than by will or the laws of descent and distribution, and shall be exercisable during the PARTICIPANT's lifetime only by the PARTICIPANT or his or her duly appointed guardian or personal representative.

2.5 Termination of Employment. If the PARTICIPANT's employment with MCGRATH terminates for any reason other than death or disability, such PARTICIPANT shall have, at the discretion of the BOARD at the time of grant of the option, a period no longer than three (3) months after the date of termination to exercise his or her option. Upon expiration of such period, all unexercised options of such PARTICIPANT under this PLAN shall terminate. If the BOARD does not grant such a period in the written stock agreement, all of the PARTICIPANT's unexercised options shall terminate at the close of business thirty (30) days after PARTICIPANT's last day of employment.

2.5.1 Employment Not Continued. Neither service as a director, consultant, advisor or other service provider by a PARTICIPANT who had been granted an option when an employee, nor the payment of a director's, consultant's, advisor's or other fee by MCGRATH, shall be sufficient to constitute continued "employment" by MCGRATH with respect to such option.

2.5.2 Transfer. An employee's employment shall not be deemed to have terminated by reason of a transfer between MCGRATH, its parent, any subsidiary, or any successor.

2.5.3 Leave of Absence. An employee's employment shall not be deemed to have terminated by reason of a leave of absence approved by MCGRATH. For purposes of INCENTIVE OPTIONS, no such leave of absence may exceed four (4) months unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by MCGRATH is not so guaranteed, after the first four (4) months of such leave any INCENTIVE OPTION held by the PARTICIPANT shall cease to be treated as an INCENTIVE OPTION and shall be treated for tax purposes as a NON-QUALIFIED OPTION. In the event of a leave of absence approved by MCGRATH, the vesting of all options held by such employee shall be tolled during such absence, unless otherwise provided by MCGRATH.

2.5.4 Directors. With respect to a PARTICIPANT who was a director, but not an employee, of MCGRATH or one of its subsidiaries when granted an option, he or she shall be deemed to have terminated employment for purposes of such option on the date he or she ceases to be a director of MCGRATH or one of its subsidiaries except as the Board may otherwise determine at the

time of granting the option.

2.5.5 Consultants, Advisors and Others. With respect to a PARTICIPANT who was neither an employee nor a director of MCGRATH or one of its subsidiaries when granted an option, he or she shall be deemed to have terminated employment for purposes of such option on the date of the expiration of his or her written contract under which he or she provided services to MCGRATH except as the Board may otherwise determine at the time of granting the option; or if there is no such written contract, then he or she shall be deemed to have terminated employment for purposes of such option on the date three (3) months after MCGRATH last received services from the PARTICIPANT except as the Board may otherwise determine at the time of granting the option.

2.6 Disability of Participant. If a PARTICIPANT's employment with MCGRATH terminates as a result of his or her disability, such PARTICIPANT shall have the lesser of twelve (12) months after the date of termination or the EXPIRATION DATE to exercise his or her option. Upon expiration of such twelve-month period or until the EXPIRATION DATE, if earlier, all unexercised options of such PARTICIPANT under this PLAN shall terminate. For purposes of this PLAN, an individual is disabled if he or she is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted, or can be expected to last, for a continuous period of not less than twelve (12) months.

2.7 Death of Participant. If any PARTICIPANT dies while employed by, or otherwise providing services to, MCGRATH, or within three (3) months after the date of termination of employment (as defined in Section 2.5 above), such Participant's options may be exercised by the person or persons to whom the PARTICIPANT's rights under the options shall pass by will or by the applicable laws of descent and distribution. Such person or persons shall have the lesser of twelve (12) months after the date of the PARTICIPANT's death or until the EXPIRATION DATE of the options to exercise the options. Upon expiration of such twelve-month period or until the EXPIRATION DATE, if earlier, all unexercised options of such PARTICIPANT under this PLAN shall terminate.

2.8 Modification in Level of Employment.

2.8.1 Reduction in Hours. An employee's employment shall not be deemed to have terminated by reason of a reduction in hours scheduled to be worked if approved by an officer of MCGRATH. In the event of a reduction in hours scheduled to be worked, the rate of vesting thereafter of all options held by such employee shall be reduced proportionately to the reduction in hours, unless otherwise provided by MCGRATH. The reduction in the rate of vesting may result in the EXPIRATION DATE being reached prior to the full vesting of all shares subject to the options, in which case unvested shares shall be forfeited and returned to the PLAN.

2.8.2 Reduction in Duties and Responsibilities. A PARTICIPANT's employment shall not be deemed to have terminated by reason of a reduction in the duties or responsibilities of the PARTICIPANT with respect to MCGRATH. In the event of a substantial reduction in the duties and responsibilities expected of a PARTICIPANT, MCGRATH and the PARTICIPANT may mutually agree in writing to a reduction in the number of shares subject to any options held by such PARTICIPANT and/or a reduction in the rate of vesting of such options.

2.9 Issuance of Stock Certificates. Upon exercise of an option, the person exercising such option shall be entitled to one stock certificate evidencing the shares acquired upon exercise; provided, however, that any person who tenders COMMON STOCK when exercising the option shall be entitled to receive two certificates, one representing a number of shares equal to the number of shares exchanged for the stock acquired upon exercise, and another representing the additional shares, if any, acquired upon exercise of the option; provided, further, that if the vesting limitation set forth in Section 2.10 below is exceeded, the person exercising the option shall be entitled to receive two certificates, one representing a number of shares constituting INCENTIVE OPTION shares, and another representing the excess shares issued as NON-QUALIFIED OPTION shares.

2.10 Limitation on Vesting of Incentive Options. The aggregate FAIR MARKET VALUE (determined as of the time the option is granted) of the stock, which first becomes exercisable by the PARTICIPANT during any calendar year under all INCENTIVE OPTIONS of MCGRATH or any subsidiary or parent of MCGRATH, shall not exceed \$100,000, as determined in accordance with the rules and regulations of the Internal Revenue Service promulgated under the CODE. The \$100,000 limitation described in this Section 2.10 shall be applied to all such INCENTIVE OPTIONS in the order granted to the PARTICIPANT. In the event such limitation is exceeded, the excess shares shall be deemed shares subject to a NON-QUALIFIED OPTION and shall not be treated as part of an INCENTIVE OPTION within the meaning of Section 422 of the CODE.

SECTION 3. OTHER PROVISIONS.

3.1 Adjustments Upon Changes in Capitalization.

3.1.1 Subject to any action by the stockholders required by law, the number of shares of COMMON STOCK covered by this PLAN and any outstanding option and the price per share thereof shall be proportionately adjusted for any increase or decrease in the number of issued shares of COMMON STOCK resulting from a subdivision or consolidation of shares or the payment of a stock dividend (but only on the COMMON STOCK) or any other increase or

decrease in the number of such shares effected without receipt of consideration by MCGRATH (for this purpose, issuances of shares upon conversion of convertible securities shall be deemed an issuance for which MCGRATH receives consideration).

3.1.2 The successor corporation in any merger or consolidation of MCGRATH shall be required to assume options then outstanding under the PLAN. Should MCGRATH sell all or substantially all of its assets in a transaction wherein the employees

of MCGRATH continue to be employed by the purchasing corporation, such purchasing corporation shall likewise be required to assume options then outstanding under the PLAN.

3.1.3 Adjustments under this Section 3.1 shall be made by the BOARD, whose determination as to what adjustments shall be made, and the extent thereof, shall be final, binding and conclusive. No fractional shares of COMMON STOCK shall be issued under the PLAN on account of any such adjustment.

3.2 Dissolution or Liquidation. A dissolution or liquidation of MCGRATH shall cause an outstanding option to terminate; provided that the holder of any outstanding option shall, in such event, be given at least thirty (30) days prior written notice of such event (which notice, if mailed, shall be deemed given at the time of mailing) and shall have the right until such event to exercise his or her option to the extent then exercisable; provided further that the BOARD in its discretion (to the extent permitted by the CODE) may in the event of any such dissolution or liquidation accelerate the accrual of exercise rights in such manner as the BOARD shall deem appropriate.

3.3 Rights of Participants and Beneficiaries.

3.3.1 Nothing contained in the PLAN (or in any option granted pursuant to the PLAN) shall confer upon any employee, director or other service provider any right to continue in the employ of MCGRATH (or its subsidiaries), or constitute any contract or agreement of employment, or interfere in any way with the right of MCGRATH (or its subsidiaries) to reduce such person's compensation from the rate in existence at the time of the granting of an option or to terminate such person's employment; but nothing contained herein or in any option agreement shall affect any contractual rights of an employee, director or other service provider.

3.3.2 Except as provided in Section 2.7 of this PLAN, MCGRATH shall provide all benefits hereunder only to the PARTICIPANT or beneficiaries entitled thereto pursuant to this PLAN. MCGRATH shall not be liable for the debts, contracts, or engagements of any PARTICIPANT or his or her beneficiaries, and rights under this PLAN may not be taken in execution or by attachment or garnishment, or by any other legal or equitable proceeding while in the hands of MCGRATH; nor shall any PARTICIPANT or his or her beneficiaries have any right to assign, pledge or hypothecate any benefits hereunder.

3.4 Government Regulations. The PLAN and the grant and exercise of options shall be subject to all applicable rules and regulations of governmental authorities.

3.5 Withholding. MCGRATH or any of its subsidiaries which employ the PARTICIPANT shall have the right to deduct any sums that federal, state or local tax law requires to be withheld with respect to the exercise of any option, or as otherwise may be required by such laws. MCGRATH or such subsidiary may require as a condition to issuing shares upon exercise of the option that the PARTICIPANT or other person exercising the option pay any sums that federal, state or local tax law requires to be withheld with respect to such exercise. There is no obligation hereunder that any PARTICIPANT be advised of the existence of the tax or the amount which the employer corporation will be so required to withhold.

3.5.1 In its sole discretion, MCGRATH may allow a Participant to satisfy withholding tax obligations by electing to have MCGRATH withhold from the COMMON STOCK to be issued upon exercise of an option that number of shares of COMMON STOCK having a FAIR MARKET VALUE equal to the amount required to be withheld. The FAIR MARKET VALUE of the shares to be withheld shall be determined as of the day immediately preceding the date the amount of tax to be withheld is to be determined.

3.6 Amendment and Termination.

3.6.1 The BOARD may at any time suspend, amend or terminate this PLAN and may, with the consent of the holder of an option, make such modifications of the terms and conditions of such PARTICIPANT's option as it shall deem advisable. No option may be granted during any suspension of the PLAN or after such termination. The amendment, suspension or termination of the PLAN shall not, without the consent of the affected PARTICIPANT alter or impair any rights or obligations under any option theretofore granted under the PLAN.

3.6.2 In addition to BOARD approval of an amendment, if the amendment would (i) increase the benefits accruing to Participants, (ii) increase the number of securities issuable under this PLAN or (iii) modify the requirements for eligibility, or if Section 422 of the CODE requires shareholder approval of any amendment to the PLAN, then such amendment shall be approved by the holders of a majority of MCGRATH's outstanding capital stock entitled to

vote at a meeting held for the purpose of approving such amendment.

3.7 Time of Grant and Exercise.

3.7.1 The granting of an option pursuant to the PLAN shall take place at the time of the BOARD's action; provided, however, that if the appropriate resolutions of the BOARD indicate that an option is to be granted as of and at some future date, the date of grant shall be such future date. In the event action by the BOARD is taken by the unanimous written consent of its members, the action by the BOARD shall be deemed to be effective at the time the last member signs the consent.

3.7.2 An option shall be deemed to be exercised when the Secretary or Chief Financial Officer of MCGRATH receives written notice from a PARTICIPANT of such exercise, together with payment of the purchase price.

3.8 No Privileges of Stock Ownership. A PARTICIPANT shall not be entitled to the privileges of stock ownership as to any shares of stock not actually issued and delivered to him or her.

3.9 Non-Distributive Intent. Upon exercise of an option at a time when there is not in effect under the Securities Act of 1933 a registration statement relating to the stock issuable under the option, the PARTICIPANT shall represent and warrant in writing to MCGRATH that the shares purchased are not being acquired with a view to the distribution thereof. No shares shall be issued upon the exercise of any option unless and until any then applicable requirements of the Securities and Exchange Commission, the California Department of Corporations, and any other regulatory agencies having jurisdiction and of any exchanges or associations upon which the COMMON STOCK may be listed shall have been fully satisfied.

3.10 Effective Date of the PLAN. This PLAN shall be effective as of March 9, 1998, and shall within twelve (12) months of such date, and before any option issued pursuant to the PLAN may be exercised, be submitted to the shareholders of MCGRATH for the approval by a vote of holders of a majority of MCGRATH's outstanding capital stock entitled to vote thereon

3.11 Termination. Unless previously terminated by the BOARD, this PLAN shall terminate at the close of business on March 8, 2008, and no option shall be granted under it thereafter, but such termination shall not affect any option theretofore granted.

End of Plan

Adopted March 9, 1998
Amended November 16, 2001
Amended and Restated November 22, 2002

McGRATH RENTCORP
EMPLOYEE STOCK OWNERSHIP PLAN

Prepared: November 5, 1993
Revised: February 17, 1994
Revised: June 20, 1994
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McGRATH RENTCORP

EMPLOYEE STOCK OWNERSHIP PLAN

Section 1. NATURE OF PLAN.

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

(b) This Plan, originally effective as of January 1, 1985, and amended and herein restated effective as of January 1, 1989 (except that provisions which are required to be effective before this date in accordance with the Tax Reform Act of 1986 are hereby generally applicable to the Plan Years beginning after 1988, unless an earlier or later effective date is required pursuant to a statute or Treasury Regulation or as stated in the Plan document), is intended to qualify as an Employee Stock Ownership Plan, as defined in Section 4975(e)(7) of the Internal Revenue Code (hereinafter referred to as the "Code"), and as a stock bonus plan under Section 401(a) of the Code. This Plan is adopted as an amendment and restatement of the Company's present Employee Stock Ownership Plan. All Trust assets acquired under this Plan as a result of Employer Contributions, income and other additions to the Trust will be administered, distributed, forfeited and otherwise governed by the provisions of this Plan which is administered by the Committee for the exclusive benefit of Participants in the Plan and their Beneficiaries. It is intended that all benefits, rights and features of this Plan be uniformly available to all Participants.

Section 2. DEFINITIONS.

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

ACCOUNT

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

AFFILIATED COMPANY

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

ALTERNATE PAYEE

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

ANNIVERSARY DATE

The 31st day of December of each year.

ANNUAL ADDITIONS

The aggregate of amounts credited to a Participant's Accounts each year from Employer Contributions, Forfeitures, and a Participant's voluntary contributions (if any) under all defined contribution plans of an Employer or Affiliated Company; provided, however, that Employer Contributions applied to the payment of interest on a Securities Acquisition Loan and Forfeitures of Employer Securities purchased with the proceeds of a Securities Acquisition Loan shall be excluded if no more than one third (1/3) of the Employer Contribution deductible under Section 404(a)(9) of the Code for that year is allocated to the Accounts of Highly Compensated Employees. Amounts allocated after March 31, 1984 to an individual medical account (as defined in Section 415(1)(2) of the Code) which

is part of a pension or annuity plan maintained by the Company shall be treated as an Annual Addition. Any amounts attributable to postretirement medical benefits allocated to the separate account of a Key Employee (as defined in Section 419A(d)(3) of the Code) under any Welfare Benefit Plan (as defined in Section 419(e) of the Code) after December 31, 1985 shall be treated as an Annual Addition. A restored Forfeiture, a transfer from another qualified pension plan and a rollover contribution (if any) shall not be counted as an "Annual Addition."

BENEFICIARY

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

BOARD OF DIRECTORS

The board of directors of the Company.

BREAK IN SERVICE

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

CODE

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

COMMITTEE

The Committee appointed by the Board of Directors to administer the Plan and to give instructions to the Trustee.

COMPANY

McGrath Rentcorp.

COMPANY STOCK

Shares of any class of stock, preferred or common, voting or nonvoting, which are issued by the Company or by any affiliate of the Company, as defined in Section 407(d) of ERISA, including Employer Securities.

COMPANY STOCK ACCOUNT

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

CONTRIBUTIONS

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

COVERED COMPENSATION

The total wages paid to a Participant by the Employer for each Plan Year as reported on IRS Form W-2, including commissions, bonuses, overtime compensation, and any salary deferrals under Sections 401(k) and 125 of the Code, but excluding any fringe benefits and contributions to this or any other deferred compensation plan except salary deferrals under Sections 401(k) and 125. Notwithstanding the foregoing, effective for Plan Years beginning after December 31, 1988, Covered Compensation of any Participant taken into account in any Plan Year shall not exceed \$200,000, as indexed in accordance with Section 415(d)(1) of the Code. In determining whether a Participant has Covered Compensation in excess of \$200,000, the rules of Section 414(q)(6) of the Code shall apply, except that in applying such rules, the term "family member" shall include only the spouse of the Participant and any lineal descendants of the Participant who have not attained age 19 before the close of the Plan Year, if such Participant is one of the top ten Highly Compensated Employees of the Company. If, as a result of the application of this rule, the adjusted \$200,000 limit is exceeded, the limitation shall be prorated among the affected individuals in proportion to each such individual's Covered Compensation as determined prior to the application of this limitation. Covered Compensation does not include compensation paid prior to the Entry Date on which an Employee first becomes eligible to participate.

In addition to other applicable limitations set forth in the Plan, and notwithstanding any other provision of the Plan to the contrary, for Plan Years beginning on or after January 1, 1994, the annual compensation of each Employee taken into account under the Plan shall not exceed the Omnibus Budget Reconciliation Act of 1993

("OBRA `93") annual compensation limit. The OBRA `93 annual compensation limit is \$150,000, as adjusted by the Commissioner for increases in cost of living in accordance with section 401(a)(17)(B) of the Internal Revenue Code. The cost-of-living adjustment in effect for a calendar year applies to any period, not exceeding 12 months, over which compensation is determined (determination period) beginning in such calendar year. If a determination period consists of fewer than 12

months, the OBRA '93 annual compensation limit will be multiplied by a fraction, the numerator of which is the number of months in the determination period, and the denominator of which is 12.

For Plan Years beginning on or after January 1, 1994, any reference in this Plan to the limitation under section 401(a)(17) of the Code shall mean the OBRA '93 annual compensation limit set forth in this provision.

If compensation for any prior determination period is taken into account in determining an Employee's benefits accruing in the current Plan Year, the compensation for that prior determination period is subject to the OBRA '93 annual compensation limit in effect for that prior determination period. For this purpose, for determination periods beginning before the first day of the first plan year beginning on or after January 1, 1994, the OBRA '93 annual compensation limit is \$150,000.

DEFERRED RETIREMENT

Termination of service subsequent to attainment of the Normal Retirement Date.

DIRECT ROLLOVER

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

DISABILITY

If a Participant terminated employment because of a total and permanent disability, the Participant will be given a Disability Retirement without regard to age or length of service, and the termination benefit shall be one hundred percent (100%) of the amounts in all of the Participant's Accounts. "Total and permanent disability" shall mean the Participant's entitlement to Social Security disability benefits.

DISTRIBUTEES

Any Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's or former Employee's spouse or former spouse who is the Alternate Payee under a qualified domestic relations order, as defined in section 414(p) of the Code, are Distributees with regard to the interest of the spouse or former spouse.

DOMESTIC RELATIONS ORDER

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

EFFECTIVE DATE

The Effective Date of this amended and restated Plan is January 1, 1989 (except that provisions which are required to be effective before this date in accordance with the Tax Reform Act of 1986 are hereby generally applicable to the Plan Years beginning after 1988, unless an earlier or later effective date is required pursuant to a statute or Treasury Regulation or as stated in the Plan document).

ELIGIBLE RETIREMENT PLAN

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

ELIGIBLE ROLLOVER DISTRIBUTION

Any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution

does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated Beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; and the portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to Employer Securities).

EMPLOYEE

A person, employed by an Employer, any portion of whose income is subject to withholding of income tax and/or for whom Social Security contributions are made by an Employer, as well as any other person qualifying as a common law employee of an Employer. Employee shall include Leased Employees unless: (i) such Employee is covered by a money purchase pension plan providing: (1) a nonintegrated Employer contribution rate of at least ten percent (10%) of compensation, as defined in Section 415(c)(3) of the Code, but including amounts contributed pursuant to a salary reduction agreement which are excludable from the Employee's gross income under Section 125, Section 402(a)(8), Section 402(h) or Section 403(b) of the Code; (2) immediate participation; and (3) full and immediate vesting; and (ii) Leased Employees do not constitute more than twenty percent (20%) of the Company's nonhighly compensated work force.

EMPLOYER

McGrath Rentcorp and any other affiliate of the Company, as defined in Section 407(d) of the ERISA, or any predecessor or successor corporation, which has been designated by the Company as an Employer participating in the Plan, and which has accepted such designation and has agreed to be bound by the terms of the Plan and Trust Agreement.

EMPLOYER SECURITIES

Common stock issued by the Company or by any affiliate of the Company, as defined in Section 407(d) of ERISA, having a combination of voting power and dividend rights equal to (i) that class of common stock of the Company having the greatest voting power and (ii) that class of common stock of the Company having the greatest dividend rights. Noncallable preferred stock shall be treated as Employer Securities if such stock is convertible at any time into common stock which meets the above requirements, and if (as of the date of acquisition by the Plan) the conversion price is reasonable.

EMPLOYMENT COMMENCEMENT DATE

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

ENTRY DATE

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

ERISA

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

EXCESS COMPENSATION

The amount by which a Participant's Covered Compensation for any Plan Year exceeds the Social Security taxable wage base under Section 3121(a)(1) of the Internal Revenue Code in effect at the beginning of such Plan Year.

FISCAL YEAR

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

FORFEITURES

The portion of a Participant's Accounts which does not become part of the Participant's Plan Benefit after the Participant incurs five (5) consecutive one-year Breaks in Service. See Section 13 of the Plan.

HIGHLY COMPENSATED EMPLOYEE

The term Highly Compensated Employee includes highly compensated active Employees and highly compensated former Employees.

The term Highly Compensated active Employee includes any Employee

who performs service for the Employer during the determination year and who, during the look-back year, (i) received compensation from the Employer in excess of \$75,000 (as adjusted pursuant to Section 415(d) of the Code); (ii) received compensation from the Employer in excess of \$50,000 (as adjusted pursuant to Section 415(d) of the Code) and was a member of the top-paid group for such year;

or (iii) was an officer of the Employer and received compensation during such year that is greater than fifty percent (50%) of the dollar limitation in effect under Section 415(b)(1)(A) of the Code.

The term Highly Compensated Employee also includes (i) Employees who are both described in the preceding sentence if the term "determination year" is substituted for the term "look-back year," and the Employee is one of the one hundred (100) Employees who received the most compensation from the Employer during the determination year; and (ii) Employees who are five percent (5%) owners at any time during the look-back year or determination year.

If no officer has satisfied the compensation requirement of (iii) above during either a determination year or look-back year, the highest paid officer for such year shall be treated as a Highly Compensated Employee.

For this purpose, the determination year shall be the Plan Year. The look-back year shall be the twelve-month period immediately preceding the determination year.

The term Highly Compensated former Employee includes any Employee who separated from service (or was deemed to have separated) prior to the determination year, performed no service for the Employer during the determination year, and was a highly compensated active Employee for either the separation year or any determination year ending on or after the Employee's fifty-fifth (55th) birthday.

If an Employee is, during a determination year or look-back year, a family member of either a five percent (5%) owner who is an active or former Employee or a Highly Compensated Employee who is one of the ten (10) most Highly Compensated Employees ranked on the basis of compensation paid by the Employer during such year, then the family member and the five percent (5%) owner or top ten Highly Compensated Employee shall be treated as a single Employee receiving compensation and plan contributions or benefits equal to the sum of such compensation and contributions or benefits of the family member and five percent (5%) owner or top ten (10) Highly Compensated Employee. For purposes of this Section, family member includes the spouse, lineal ascendants and descendants of the Employee or former Employee and the spouses of such lineal ascendants and descendants.

The determination of who is a Highly Compensated Employee, including the determinations of the number and identity of Employees in the top-paid group, the top one hundred (100) Employees, the number of Employees treated as officers and the compensation that is considered, will be made in accordance with Section 414(q) of the Code and the regulations thereunder.

HOUR OF SERVICE

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

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

or insurer, to which the Employer or an Affiliated Company contributes or pays premiums and regardless of whether contributions made or due to the trust fund, insurer or other entity are for the benefit of particular Employees or are on behalf of a group of Employees in the aggregate.

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

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

(e) In the case of a salaried Employee who is not paid on an hourly basis, Hours of Service shall be based on any available records which accurately reflect the actual number of hours worked by such Employee. If such records do not

exist, such Employee shall be credited with Hours of Service on the basis of 45 hours for each week for which the Employee would be credited with at least one Hour of Service.

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

LEASED EMPLOYEE

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

LIMITATION YEAR

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

NORMAL RETIREMENT

Termination of service upon attainment of the Normal Retirement Date.

NORMAL RETIREMENT DATE

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

OTHER INVESTMENTS ACCOUNT

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

PARTICIPANT

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

PLAN

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

PLAN BENEFIT

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

PLAN YEAR

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

QUALIFIED ELECTION PERIOD

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

QUALIFIED PARTICIPANT

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

RETIREMENT

Termination of service due to Normal Retirement, Deferred Retirement or Disability.

SECURITIES ACQUISITION LOAN

A loan which is used to purchase Employer Securities and which meets the requirements of paragraphs 1 and 2 of Section 6(c) of the Plan.

SEGREGATED INVESTMENTS ACCOUNT

The Account of a Participant which is credited with amounts which may not be used to purchase shares of Company Stock pursuant to the provisions of Rev. Proc. 87-22.

STOCK BONUS PLAN

The portion of the Plan which is designed to qualify as such and is subject to the rules pertaining to a stock bonus plan under Section 401(a) of the Code.

SUSPENSE ACCOUNT

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

TOTAL COMPENSATION

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

(a) The term "Total Compensation" includes:

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

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

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

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

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

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

(7) For purposes of subdivisions (1) and (2) of this subparagraph, foreign earned income (as defined in Section 911(b) of the Code), whether or not excludable from gross income under Section 911 of the Code. Compensation described in subdivision (1) of this subparagraph is to be determined without regard to the exclusions from gross income in Sections

931 and 933 of the Code. Similar principles are to be applied with respect to income subject to Sections 931 and 933 of the Code in determining compensation described in subdivision (2) of this subparagraph.

b) The term "Total Compensation" does not include items such as:

(1) Contributions made by the Employer to a plan of deferred compensation to the extent that, before the application of Code Section 415 limitations to that plan, the contributions are not includable in the gross income of the Employee for the taxable year in which contributed. In addition, Employer contributions made on behalf of an Employee to a simplified employee pension plan described in Code Section 408(k) are not considered as compensation for the taxable year in which contributed. Additionally, any distributions from a plan of deferred compensation are not considered as compensation for Section 415 purposes, regardless of whether such amounts are includable in the gross income of the Employee when distributed. However, any amounts received by an Employee pursuant to an unfunded nonqualified plan may be considered as compensation for Code Section 415 purposes in the year such amounts are includable in the gross income of the Employee.

(2) Amounts realized from the exercise of a nonqualified stock option, or when restricted stock (or property) held by an Employee either becomes freely transferable or is no longer subject to a substantial risk of forfeiture (under Section 83 of the Code).

(3) Amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option.

(4) Other amounts which receive special tax benefits, such as premiums for group term life insurance (but only to the extent that the premiums are not includable in the gross income of the Employee), or contributions made by an Employer (whether or not under a salary deferral agreement) towards the purchase of an annuity contract described in Section 403(b) of the Code (whether or not the contributions are excludable from the gross income of the Employee)."

TRUST

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

TRUST AGREEMENT

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

TRUSTEE

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

UNITS

A Participant shall be entitled to one (1) Unit for each \$1,000 of Covered Compensation and one (1) Unit for each six (6) months of Service. Effective January 1, 1994, except as provided herein, Participants shall be granted one (1) Unit for each \$1,000 of Covered Compensation and two (2) Units for each Year of Service. Notwithstanding the foregoing, effective January 1, 1994, Highly Compensated Employees shall not receive Unit credits for any Years of Service.

VALUATION DATE

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

YEAR OF SERVICE

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

For purposes of vesting under Section 13, all Plan Years after December 31, 1984, during which an Employee has completed 1,000 or more Hours of Service, including any Plan Year during which such Participant has completed 1,000 or more Hours of Service but has not yet become eligible to participate in the Plan.

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

Section 3. ELIGIBILITY.

Each Employee shall become a Participant in the Plan from and after the Entry Date coinciding with or next following the date on which the Employee has completed a Year of Service, provided the Employee has attained age 21. For eligibility purposes, a Year of Service is calculated in one of two ways. In the first way, the "initial eligibility computation period" is the period of twelve (12) consecutive months beginning on the Employee's Employment Commencement Date. If the Employee does not complete 1,000 Hours of Service during that 12-month period, eligibility is calculated in a second way. In the second way, the "subsequent eligibility computation period" is based on the Plan Year which begins in the first year of employment and overlaps it. If the Employee does not complete 1,000 Hours of Service during that Plan Year, the eligibility computation period begins again on the first day of the following Plan Year and so forth until the Employee completes 1,000 Hours of Service during a Plan Year.

Upon the Employee so becoming eligible, participation shall be based on the total Covered Compensation paid to the Employee from and after said Entry Date. If an Employee who has met the eligibility requirements leaves the service of the Employer and returns to service after the Entry Date without incurring five consecutive one-year Breaks in Service, the Employee shall commence participation immediately upon returning to Service. All Employees who were active Participants in the Company's Employee Stock Ownership Plan on December 31, 1988 are automatically Participants in this Plan as of the Effective Date.

An Employee whose terms of employment with the Employer are covered by a collective bargaining agreement shall not be eligible to participate in the Plan. Notwithstanding the foregoing, in the event any such Employees cease to be subject to the collective bargaining agreement, Years of Service for purposes of eligibility and vesting shall include years during which an Employee is covered by a collective bargaining agreement after the original effective date of the Plan.

Section 4. PARTICIPATION IN ALLOCATION OF BENEFITS.

(a) Participation.

Except in the case of death, Disability or Retirement, a Participant will share in the allocation of Employer Contributions and Forfeitures only if the Participant is still employed on the last day of the Plan Year and has accumulated 1,000 or more Hours of Service during the Plan Year. Except in the case of death, Disability or Retirement, a Participant who accumulates less than 1,000 Hours of Service during a Plan Year will not share in the allocation of Employer Contributions and Forfeitures under Section 11 for such Plan Year, will not be given a Year of Service for purposes of vesting under Section 13, and shall become an inactive Participant for that Plan Year.

Notwithstanding the foregoing, for Plan Years beginning after December 31, 1988, in the event that the Plan fails to meet the coverage requirements of Internal Revenue Code Section 410(b) for the Plan Year, members of the group of Participants who are in the employ of the Employer and who have completed more than 500 Hours of Service will share in Employer Contributions and Forfeitures for the Plan Year as follows: the minimum number required to meet the coverage tests under Code Section 410(b) based on their number of Hours of Service credited during the Plan Year, ranked in descending order. If more than one Employee receives credit for the lowest number of Hours of Service for which any individual must be covered in order to meet the coverage tests, then all employees receiving credit for exactly that number of Hours of Service shall share in the allocation of Employer Contributions and Forfeitures.

A Participant reemployed following a Break in Service shall, after completion of one Year of Service (measured by the Participant's reemployment date), participate retroactively to the date of reemployment as to such Participant's new Accounts for purposes of vesting under Section 13 and for purposes of participating in the allocation of Employer Contributions and Forfeitures under Section 11. If the Participant is reemployed after a Break in Service and has no vested rights under the Plan and the number of consecutive one-year Breaks in Service equals or exceeds five years or the number of aggregate years of prebreak service, whichever is greater, the Participant shall be treated as a new Employee for purposes of participation.

(b) Leave of Absence.

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

terminated employment as of the date when the leave began, unless such failure to return was the result of death, Disability or Retirement.

(c) Suspended Participation.

A Participant who ceases to be an eligible Employee by becoming subject to a collective bargaining agreement shall become a suspended Participant. During the period of suspension, no amounts shall be credited to the Participant's Accounts which are based on the Participant's Covered Compensation from and after the date of suspension. However, amounts previously credited to a Participant's Accounts shall continue to vest and the Participant shall be entitled to benefits in accordance with the provisions of Section 14(g) of this Plan throughout the period during which the Participant is on suspended status.

(d) Inactive Participation.

A Participant who has more than 500 Hours of Service but less than 1,000 Hours of Service in any Plan Year shall be an inactive Participant for that Plan Year. No amounts shall be credited to such Participant's Accounts which are based on the Participant's Covered Compensation for that Plan Year unless the Participant terminates employment due to death, Disability or Retirement.

Section 5. EMPLOYER CONTRIBUTIONS.

(a) Amount of Contribution.

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

(b) Time for Making Contribution.

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

(c) Form of Contribution.

Employer Contributions may be paid in cash, shares of Company Stock or other property as the Company's Board of Directors may from time to time determine. Shares of Company Stock and other property will be valued at their then fair market value. In the case of a security for which there is a generally recognized market, fair market value shall be the price of the security prevailing on a national securities exchange which is registered under Section 6 of the Securities Exchange Act of 1934, or which has been listed for more than one month on an electronic quotation system administered by a national securities association registered under such Act. If the security is not so traded on a national securities exchange or so listed on such an electronic quotation system, fair market value shall be a price not less favorable to the Plan than the offering price for the security as established by the current bid and asked prices quoted by persons independent of the issuer and a party in interest. No participant shall be required or permitted to make contributions to the Plan or Trust.

Section 6. INVESTMENT OF TRUST ASSETS.

(a) Authorized Investments.

Employer Contributions in cash and other property received by the Trust will be applied to pay any outstanding obligations of the Trust incurred for the purchase of Employer Securities, or may be applied to purchase additional shares of Company Stock from current shareholders, treasury shares, or newly issued shares from the Company. The Committee may also direct the Trustee to invest funds under the Plan in savings accounts, certificates of deposit, securities, or other equity stocks or bonds or in any other kind of real or personal property, including interests in oil or other depletable natural resources, options, puts, calls, futures contracts and commodities; or such funds may be held in non-interest-bearing bank accounts as necessary on a temporary basis.

(b) Duties of Committee.

Except as otherwise provided in Section 18(b), all investments will be made by the Trustee only upon the direction of the Committee. Except in the case of a purchase from a Disqualified Person (as defined in Section 16 of the Plan), all purchases of Company Stock shall be made at fair market value, as defined in Section 5(c) hereof. In the case of a purchase from a Disqualified

Person, all purchases of Company Stock shall be made at prices which do not exceed the fair market value of such shares as of the date of the transaction.

(c) Plan Loans.

(1) The Committee may direct the Trustee to incur Plan loans from time to time to carry out the purposes of the Trust, provided that if the loan is a Securities Acquisition Loan, the terms of the loan must comply with the following requirements: Any such loan shall be for a specified term, shall bear a reasonable rate of interest, may not exceed fifteen (15) years in duration, and may only be secured by a collateral pledge of the Employer Securities so acquired. Any such loan shall be primarily for the benefit of Plan Participants and their Beneficiaries. No other Trust assets may be pledged as collateral by the Trustee, and no lender shall have recourse against Trust assets other than any shares of Employer Securities remaining subject to pledge. Any pledge of Employer Securities must provide for the release of shares so pledged pursuant to either the "General Rule" or the "Special Rule" set forth in Section 7. Shares of Employer Securities released from the Suspense Account shall be allocated to Participants' accounts in shares of stock or other nonmonetary units. Repayments of principal and interest on any Securities Acquisition Loan shall be made by the Trustee (as directed by the Committee) only from Employer Contributions in cash to the Trust, from any cash dividends received by the Trust on such Employer Securities or from any earnings attributable to the investment of Employer Contributions made to the Trust in cash to meet its obligations under the loan. Such Contributions, dividends and earnings shall be accounted for separately in the books of accounts of the Plan until the Securities Acquisition Loan is repaid. The proceeds of a Securities Acquisition Loan may be used only to acquire Employer Securities, to repay such loan or to repay a prior Securities Acquisition Loan. The Plan may not obligate itself to acquire securities from a particular security holder at an indefinite time determined upon the happening of an event such as the death of the holder. The protections and rights described in Section 16 are nonterminable. Should this Plan cease to be an Employee Stock Ownership Plan, or should the Securities Acquisition Loan be repaid, all Employer Securities will continue to be subject to the provisions of Section 16.

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

(3) Interest earned on any Securities Acquisition Loan made by a bank, insurance company, regulated investment company or corporation actively engaged in the business of lending money shall qualify for the fifty percent (50%) exclusion from gross income under Section 133 of the Code to the extent the loan meets the following criteria:

(A) The proceeds are paid to the Plan or are paid to the Company and in turn lent by the Company to the Plan. If the proceeds of the loan are in turn lent to the Plan, the repayment terms must be substantially similar to the terms of the loan to the Company.

(B) If the loan was completed between June 6, 1989 and November 17, 1989, the Plan must own thirty percent (30%) or more of either each class of Company Stock or the total value of all outstanding stock of the Company. In the case of loans completed after November 17, 1989, the Plan must own more than fifty percent (50%) of such stock of the Company.

(C) The term of the loan may not exceed fifteen (15) years.

(D) In the case of loans completed after November 17, 1989, Participants shall be entitled to direct how the stock acquired with such Securities Acquisition Loan and allocated to their accounts will be voted.

If a Securities Acquisition Loan qualified under Section 133 of the Code is refinanced, the fifty percent (50%) interest exclusion shall apply only during the first seven (7) years of the original commitment period (measured from the date of the original loan) or during the original commitment period, whichever is greater. Interest earned on any Securities Acquisition Loan made by the Company or by any member of a controlled group of companies which includes the Company shall not qualify for such interest exclusions.

Section 7. ALLOCATIONS TO ACCOUNTS.

(a) Individual Accounts.

The Committee shall establish and maintain individual Accounts for

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

(b) Company Stock Account.

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

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

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

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

(i) The numerator of which is the amount of principal and interest paid for the Plan Year; and

(ii) The denominator of which is the sum of the numerator plus the principal and interest to be paid for all future years.

(B) Special Rule:

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

(aa) The numerator of which is the amount of principal paid for the Plan Year; and

(bb) The denominator of which is the sum of the numerator plus the principal to be paid for all future Plan Years.

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

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

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

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

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

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

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

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

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

(c) Other Investments Account.

The Other Investments Account of each Participant will be credited (or debited) as of each Anniversary Date with the Participant's share of the net income (or loss) of the Trust, with cash dividends on Company Stock not distributed to Participants or used to pay a Securities Acquisition Loan and with Employer Contributions and Forfeitures in other than Company Stock. The Other Investments Account of each Participant will be credited (or debited) as of each Anniversary Date with the Participant's share of the unrealized appreciation (or depreciation) in the value of Trust assets other than Company Stock. It will be debited for any payments for purchases of Company Stock or for repayment of debt (including principal and interest) incurred for the purchase of Employer Securities.

Section 8. EXPENSES OF THE PLAN AND TRUST.

Normal brokerage charges which are included in the cost of securities purchased (or charged to proceeds in the case of sales) shall be paid by the Trust. The Company shall pay all expenses in connection with the design, establishment, or termination of the Plan. The Trust shall pay all costs of administering the Plan and Trust, unless such expenses are paid by the Company.

Section 9. VOTING COMPANY STOCK.

The shares of Company Stock are publicly traded, so each Participant shall be entitled to vote any voting shares of Company Stock allocated to the Participant's Company Stock Account as of the record date. The Trustee shall notify or shall cause Employer to notify each Participant of each occasion for the exercise of voting rights not less than thirty (30) days before such rights are to be exercised. The notification shall include all information that the Employer distributes to shareholders regarding the exercise of such rights. Participants shall be allowed to vote fractional shares. Any shareholder rights other than voting rights (such as conversion rights) shall be subject to Participant control and direction under the same terms and conditions as set forth above. Any unallocated shares held by the Trust shall be voted by the Trustee in accordance with instructions from the Committee.

Section 10. DISCLOSURE TO PARTICIPANTS.

(a) Summary Plan Description.

Within ninety (90) days after a Participant commences participation (or after a Beneficiary first receives benefits under the Plan), the Committee shall furnish such Participant (or Beneficiary) with the summary plan description required by Sections 102(a)(1) and 104(b)(1) of ERISA. Such summary plan description shall be updated from time to time as required under ERISA and the Department of Labor regulations thereunder.

(b) Summary Annual Report.

Within nine (9) months after each Anniversary Date, the Committee shall furnish each Participant (and each Beneficiary receiving benefits under the Plan) with the summary annual report of the Plan required by Section 104(b)(3) of ERISA, in the form required by regulations of the Department of Labor.

(c) Annual Statement.

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

(1) The balance in each of their Accounts as of the preceding Anniversary Date.

(2) The amount of Employer Contributions and Forfeitures allocated to their Accounts for the year.

(3) The adjustments to their Accounts to reflect their share of dividends and the income and expenses of the Trust for the year.

(4) The new balances in each of their Accounts, including the number of shares of Company Stock.

(5) The vested percentage of their Plan Benefit.

Upon the discovery of any error or miscalculation in an Account, the Committee shall correct the same insofar as, in the Committee's discretion, correction is feasible. Statements to Participants are for reporting purposes

only, and no allocation, valuation or statement shall, by itself, vest any right or title in any part of the Trust fund.

(d) Notice of Rollover Treatment.

The Committee shall, when making any distribution which qualifies as a qualifying rollover distribution under Section 402(c) or Section 401(a) (31) of the Code, provide a written notice to the recipient which explains the provisions of Sections 402(c)

and 401(a)(31) under which such distribution will not be subject to current tax if transferred to an Eligible Retirement Account. In the case of a distribution under Section 402(c), such notice shall be given not less than 30 days nor more than 90 days before the distribution date. If the distribution is one to which Sections 401(a)(11) and 417 of the Internal Revenue Code do not apply, such distribution may commence less than 30 days after the notice required under Section 1.411(a)(11)(c) of the Income Tax Regulations is given, provided that:

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

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

(e) Additional Disclosure.

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

Section 11. ALLOCATION OF EMPLOYER CONTRIBUTIONS AND FORFEITURES.

(a) Allocation of Employer Contributions and Forfeitures.

The allocation will be made as follows:

(1) Employer Contributions.

(A) For all Plan Years beginning prior to January 1, 1994, provided that the Plan has not obtained a Securities Acquisition Loan, Employer Contributions will be allocated as of each Anniversary Date among the Accounts of Participants in the Plan who are employed by the Company on the last day of the year or Employees whose participation terminated during the year because of Disability, Retirement or death, in the proportion that each such Participant's Excess Compensation bears to the total Excess Compensation of all such Participants for that year, provided that such allocation may not exceed an amount equal to such Participant's Excess Compensation multiplied by the tax rate for Old Age Survivors and Disability Insurance (OASDI) in effect at the beginning of the Plan Year. Any remaining portion of the Employer Contributions shall be allocated in the proportion that each such Participant's Units bears to the total Units of all such Participants for that year. For purposes of this paragraph, a person who is an inactive Participant for a Plan year, or whose participation in the Plan terminates during a Plan Year for reasons other than Retirement or death shall not be considered a Participant in the Plan on the last day of that Plan Year, provided that this Plan has not become Top Heavy.

(B) For all Plan Years beginning on or after January 1, 1994, Employer Contributions will be allocated as of each Anniversary Date among the Accounts of Participants in the Plan who are employed on the last day of the Plan Year, or Employees whose employment terminated during the year because of death, Disability or Retirement, in the proportion that each such Participant's Units bear to the total Units of all such Participants for that year. Shares of Employer Securities released from the Suspense Account (as provided in Section 7(b)) by reason of the payment of interest and principal on a Securities Acquisition Loan shall be allocated as of each Anniversary Date among the Accounts of Participants in the Plan who are employed on the last day of the Plan Year, or Employees whose employment terminated during the year because of death, Disability or Retirement, in the proportion that each such Participant's Units bear to the total Units of all such Participants for that year. For purposes of this paragraph, a person who is an inactive Participant for a Plan Year, or whose employment terminates during a Plan Year for reasons other than death, Disability or Retirement, shall not be considered a Participant in the Plan on the last day of that Plan Year.

(2) Forfeitures.

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

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

The net income (or loss) of the Trust will be determined annually as of each Anniversary Date. Any stock dividends on shares of Company

Stock held by the Trust shall be allocated to each Participant's Company Stock Account in the ratio in which the cumulative number of shares allocated to the Participant's Company Stock Account as of the preceding Anniversary Date bears to the total cumulative number of shares of Company Stock allocated to the Company Stock Accounts of all Participants as of that date. Any cash dividends paid on shares of Company Stock (whether or not allocated) and any gain on the sale of unallocated shares of Company Stock shall be allocated to each Participant's Other Investments Account in the ratio in which the cumulative number of shares allocated to the Participant's Company Stock Account as of the preceding Anniversary Date bears to the total cumulative number of shares of Company Stock allocated to the Company Stock Accounts of all Participants as of that date. All other net income (or loss) will be allocated to each Participant's Other Investments Account in the ratio in which the

balance of the Participant's Other Investments Account on the preceding Anniversary Date bears to the sum of the balances of the Other Investments Accounts of all Participants on that date. For this purpose, Account balances shall be reduced by amounts distributed to Participants during the Plan Year.

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

(b) Allocation Limitations.

(1) The total Annual Additions to a Participant's Accounts for any Limitation Year shall not exceed the lesser of (i) \$30,000 (or, if greater, one-fourth (1/4) of the dollar limitation in effect under Section 415(b)(1)(A) of the Code), or (ii) twenty-five percent (25%) of the Participant's Total Compensation for the Limitation Year. Notwithstanding the foregoing sentence, for Plan Years beginning prior to July 12, 1989 the regular dollar limitation specified in the preceding sentence (and any adjustments) may be increased by up to one hundred percent (100%) of said amount. A Participant's allocable share of Employer Contributions applied to the payment of interest on a Securities Acquisition Loan and Forfeitures of Employer Securities purchased with the proceeds of a Securities Acquisition Loan shall not be included as an Annual Addition, provided that the amount of Employer Contributions and Forfeitures allocated to a Participant's Accounts in excess of the regular dollar limitation is in the form of Employer Securities (or cash used to purchase Employer Securities) within thirty (30) days of the due date for filing the Company's federal income tax return for that year, including extensions of such date), and no more than one-third (1/3) of the Employer Contribution for that year is allocated to the Accounts of Highly Compensated Employees.

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

(3) If a Participant in this Plan is also a Participant in a defined benefit plan to which Contributions are made by an Employer or Affiliated Company, then in addition to the limitation contained in Paragraph (1) of this Subsection, such Participant's allocations shall be limited, such that the sum of the defined benefit plan fraction and the defined contribution plan fraction for any Limitation Year shall not exceed 1.0. For purposes of this Paragraph (3), the defined benefit plan fraction is a fraction, the numerator of which is the projected annual benefit of the Participant under all such defined Plans determined as of the close of the Limitation Year, and the denominator of which is the lesser of (i) the product of 1.25 multiplied by the dollar limitation in effect for such Plan Year, or (ii) the product of 1.4 multiplied by one hundred percent (100%) of the Participant's average Total Compensation for the Participant's highest three Limitation Years. For purposes of this Paragraph (3), the defined contribution plan fraction for any Limitation Year is a fraction, the numerator of which is the sum of the Annual Additions to the Participant's Accounts as of the close of the Limitation Year, and the denominator of which is the sum of the lesser of the following amounts determined for such year and for each prior Year of Service with the Employer: (i) the product of 1.25 multiplied by the dollar limitation in effect for such Limitation Year or (ii) the product of 1.4 multiplied by twenty-five percent (25%) of the Participant's Total Compensation.

(4) If Company Stock is purchased from a shareholder of the Company and if such shareholder is also a Participant in this Plan, then notwithstanding anything to the contrary contained in this Plan, the total Account balances of such Participant's Accounts other than the Participant's Segregated Investments Account, combined with the total Account balances of the Accounts of such Participant's spouse, parents, grandparents, children, and grandchildren under the Plan, shall not exceed twenty percent (20%) of the total of all Account balances under the Plan. However, if the total Account balances of such Participant's Accounts exceed twenty percent (20%) of the total of all Account balances, then the amounts in excess of said twenty percent (20%) shall be credited to that Participant's Segregated Investments Account and invested in investments other than Company Stock.

(5) If, due to forfeitures, reasonable error in estimating

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

(6) The reduction shall be treated the same as Forfeitures and shall be allocated in accordance with Section 11(a)(2) of the Plan to the Accounts of Participants who are not affected by this limitation.

(7) If any amount cannot be reallocated under the foregoing provision, such amount shall be deposited in a suspense account and allocated to the maximum extent possible under Section 11(a)(2) of the Plan in succeeding years, provided that (i) no Employer Contributions are made until Section 415 of the Code will permit their allocation, (ii) no investment gains or losses are allocated to such suspense account, and (iii) the amounts in such suspense account are allocated at the earliest possible date.

(8) Notwithstanding the allocation provisions of Section 11(a)(1) and (2), the excess, if any, of the Actual Allocation Percentage for the group of Highly Compensated Employees over that of all other eligible Employees shall not be more than two (2) percentage points, and the Actual Allocation Percentage for the group of Highly Compensated Employees shall not be more than the Actual Allocation Percentage for all other eligible Employees multiplied by two (2). For purposes of this Paragraph, the term "Actual Allocation Percentage" for a specified group of Employees for a Plan Year means the average of the ratios (calculated separately for each Participant in such group) of (i) the amount of the Employer Contributions actually allocated on behalf of each such Participant as of a date within such Plan Year, to (ii) the Participant's Plan Year Compensation (as defined in this Section) for services performed by the Employee. In the event that the amount of allocations made on behalf of Highly Compensated Employees for any Plan Year exceeds the maximum amount permitted under the above-described limitations, such excess amount shall be reallocated to other eligible employees. The amount of excess allocations for a Highly Compensated Employee for a Plan Year is the amount (if any) by which the Employee's allocations must be reduced for the Employee's actual allocation ratio to equal the highest permitted actual allocation ratio under the Plan. To calculate the highest permitted actual allocation ratio, the actual allocation ratio of the highest Highly Compensated Employee with the highest allocation ratio is reduced by the amount required to cause such Employee's actual allocation ratio to equal the ratio of the next highest Highly Compensated Employee. This process must be repeated until the allocations satisfy the actual allocation percentage test.

Section 12. PLAN BENEFIT AT DEATH, DISABILITY OR RETIREMENT.

Participation in the allocation of Employer Contributions and Forfeitures terminates as of the end of the Plan Year coinciding with or following a Participant's death, Disability or Retirement. A Participant's Plan Benefit upon death, Disability or Retirement will be the total of the Participant's Account balances as of the coinciding or following Anniversary Date.

A Participant who, while employed with the Company, dies or attains any of the following Retirement dates will be one hundred percent (100%) vested.

- (a) Normal Retirement.

A Participant's Normal Retirement Date is the later of such Participant's attainment of age sixty-five (65) or the fifth (5th) anniversary of the year in which the Participant commenced participation.

- (b) Deferred Retirement.

If a Participant continues in the service of the Employer beyond the Normal Retirement Date, such Participant shall continue to participate in the Plan during any period of employment following the Normal Retirement Date.

- (c) Disability Retirement.

If a Participant terminated employment because of a total and permanent disability, such Participant will be given a Disability Retirement without regard to age or length of service, and the termination benefit shall be one hundred percent (100%) of the amounts in all of such Participant's Accounts, vested in accordance with the vesting schedule in Section 13. "Total and permanent disability" shall mean the Participant's entitlement to Social Security disability benefits.

Any amount credited to a Participant's Accounts with respect to the Employer's Contribution for the Plan Year in which such Participant dies, becomes Disabled or attains any of the above Retirement dates shall also be completely vested at the time of such contribution.

Section 13. OTHER TERMINATION OF SERVICE AND VESTING.

- (a) Vesting Schedule.

If a Participant has a Break in Service or the Participant's employment is terminated for any reason other than as described in Section 12, the vesting of such Participant's Plan Benefit will be based upon Years of Service, as defined in Section 2, in accordance with the following vesting schedule:

Years of Service -----	Percentage of Accounts Vested -----
Less than Three Years	0
Three Years	20
Four Years	40

Five Years	60
Six Years	80
Seven or more Years	100

(b) Vesting Upon Reemployment.

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

(1) Vesting of Prior Account Balances.

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

(2) Vesting of Subsequent Account Balances.

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

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

(c) Forfeitures.

Any remainder of a terminating Participant's Account who has incurred five (5) consecutive one-year Breaks in Service shall be treated as a Forfeiture. Forfeitures shall be first charged against a Participant's Other Investments Account, with any balance charged next against Company Stock which was not acquired with the proceeds of a Securities Acquisition Loan then charged against Employer Securities acquired with a Securities Acquisition Loan. If a portion of a Participant's Account is to be forfeited and interests in more than one class of Employer Securities have been allocated to a Participant's Account, the Participant shall forfeit the same percentage of each such class. The disposition of such Forfeitures shall be as follows:

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

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

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

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

(3) If a Participant receives a "cash-out distribution" (as defined below), the nonvested balance of the Participant's Accounts shall be allocated as a Forfeiture as of the Anniversary Date coinciding with or following the date such Participant incurred a one-year Break in Service.

(d) Cash-Out Distribution.

Effective for Plan Years beginning on or after January 1, 1993, if a partially vested Participant receives a cash-out distribution, the cash-out distribution will result in a forfeiture of the nonvested portion of the Participant's Accounts. A "cash-out distribution" is a distribution of the vested portion of a Participant's Accounts that is made before the Participant's Normal Retirement Date on account of termination of participation in the Plan, provided that such distribution is made not later than the close of the second Plan Year following the Plan Year in which such termination occurred.

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

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

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

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

A Participant who is zero percent (0%) vested shall be deemed to have received a cash-out distribution as of the last day of the Plan Year in which the Participant receives an allocation of Contributions or Forfeitures. For purposes of applying the restoration provisions of this Paragraph, the Committee will treat a zero percent (0%) vested Participant as repaying the Participant's cash-out distribution on the first day of reemployment with the Employer.

Section 14. DISTRIBUTION OF PLAN BENEFIT.

- (a) Death, Disability or Retirement.

In the event of death, Disability or Retirement, a Participant's Plan Benefit shall be distributed as follows not later than one year after the close of the Plan Year in which such event occurs:

Distribution of the Company Stock Account and Other Investments Account will be made in a lump sum.

Notwithstanding the foregoing, the Committee may, in its sole discretion exercised in a uniform and nondiscriminatory manner, direct that the distribution be made in substantially equal annual installments over a period of five years.

- (b) Other Termination of Participation.

In the event a Participant ceases to participate for reasons other than death, Disability or Retirement, distribution of the Participant's Company Stock Account and Other Investments Account shall be made in a lump sum as soon as possible after the close of the Plan Year in which the Participant terminates employment.

Notwithstanding the foregoing, the Committee may, in its sole discretion exercised in a uniform and nondiscriminatory manner, direct that the distribution be made in substantially equal annual installments over a period of five years.

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

Notwithstanding the foregoing provisions of this Section 14(b), for shares of Employer Securities acquired after December 31, 1986 the Plan shall not be required to distribute any Employer Securities to the extent that the Participants or Beneficiaries have elected to have their Company Stock Account diversified under the provisions of Section 17(a) hereof.

All distributions made under this Section 14 shall be determined and made in accordance with the Proposed Regulations under Section 401(a) (9), including the minimum distribution incidental benefit requirement of Section 1.401(a) (9)-2 of the Proposed Regulations.

(c) Death Prior to Distribution.

If a Participant who has elected to defer distribution dies before the distribution has commenced, such Participant's entire Plan Benefit shall be distributed within five (5) years of the date of the Participant's death; provided, however, that if any portion of a

Participant's Plan Benefit is payable to or for the benefit of an individual who is the Participant's designated Beneficiary, such portion may, at the election of such Beneficiary, be distributed over a period not exceeding the life expectancy of such Beneficiary, provided such distributions begin not later than one year after the death of the Participant; and provided further that if the designated Beneficiary is the spouse of the Participant, at the election of the spouse, such distribution (over a period not exceeding the life expectancy of said spouse) need not commence until the date the Participant would have attained age 70-1/2.

(d) Valuation Date.

All Accounts, including the Company Stock Account, shall be valued as of a date coinciding with or immediately preceding the date of actual distribution of Plan Benefits.

(e) Limitations.

If a present value of a Participant's Plan Benefit (determined in accordance with Section 411(a)(11)(B) of the Code) has ever exceeded \$3,500, any distribution prior to the later of age sixty-two (62) or the Participant's Normal Retirement Date may be made only with the written consent of the Participant. The Committee shall provide the Participant with a written notice which explains the provision of Section 411(a)(11), not less than 30 days nor more than 90 days before the distribution date. If the distribution is one to which Sections 401(a)(11) and 417 of the Internal Revenue Code do not apply, such distribution may commence less than 30 days after the notice required under Section 1.411(a)-11(c) of the Income Tax Regulations is given, provided that:

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

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

Failure of a Participant to consent to an immediate distribution within the applicable time limit is an election to defer benefits to the later of age sixty-two (62) or the Normal Retirement Date of the Participant.

(f) Commencement of Benefits.

At the request of a Participant, the Committee shall direct that the distribution be deferred and commence not later than April 1 of the calendar year following the calendar year in which such Participant attains age 70-1/2, unless such Participant has attained age 70-1/2 prior to January 1, 1988. If a Participant has attained age 70-1/2 prior to January 1, 1988, distributions must begin not later than April 1 of the calendar year following the later of (i) the calendar year in which the Participant attains age 70-1/2 or (ii) the calendar year in which the Participant retires unless the Participant was a "five percent (5%) owner" at any time during the Plan Year (or calendar year) in which the Participant attained age 66-1/2 or any subsequent Plan Year. If a Participant dies after the distribution of the Plan Benefit has commenced, the remaining portion of the Plan Benefit shall be distributed at least as rapidly as under the method being used at the date of the Participant's death.

Notwithstanding anything in this Section 14 to the contrary, payment of the Plan Benefit will commence, unless the Participant otherwise elects, no later than the sixtieth (60th) day after the close of the Plan Year (or if later after the Plan Benefit is determined) in which the latest of the following events occur:

(1) The attainment by the Participant of age sixty-five (65);

(2) The Participant's actual retirement from the employ of the Company;

(3) The tenth (10th) anniversary of the year in which the Participant commenced participation in the Plan.

(g) Undistributed Accounts.

Any part of a Participant's Company Stock Account and Other Investments Account which is retained in the Trust after the Anniversary Date coinciding with or immediately following the date on which the Participant terminates employment shall, as soon as possible after such Anniversary Date, be physically segregated and credited with interest on the unpaid principal balance at the local passbook rate paid by any bank or savings and loan association

designated, in its sole discretion, by the Committee. However, except in the case of reemployment (as provided for in Section 4), none of the Participant's Accounts will be credited with any further Employer Contributions, Forfeitures, dividends on Company Stock or gain on the sale of unallocated shares of Company Stock.

(h) Optional Direct Transfer of Eligible Rollover Distributions.

Notwithstanding any provision of the Plan to the contrary that would otherwise limit a Distributee's election under this Section, for all distributions made on or after January 1, 1993, a Distributee may elect, at the time and in the manner prescribed by

the Plan Committee, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover.

(i) Lien on Distribution.

Notwithstanding anything to the contrary herein, if, at the time of distribution, a Participant is indebted to the Trust, or has retained in his or her possession money or property which properly belongs to the Trust, the Trust shall have a lien on such distribution pending the resolution of such ownership rights. The Trustee may exercise such lien either by directing the Company secretary to withhold any stock transfer of title, or by withholding distribution of any stock or the value of any stock or other assets, pending resolution of such ownership rights.

(j) Location of Participant or Beneficiary Unknown.

In the event that all, or any portion, of the distribution payable to a Participant or a Beneficiary hereunder shall remain unpaid solely by reason of the inability of the Committee, after sending a registered letter, return receipt requested, to the last known address, and after further diligent effort to ascertain the whereabouts of such Participant or Beneficiary, the amount so distributable shall be treated as a Forfeiture pursuant to the Plan. In the event a Participant or Beneficiary is located subsequent to his benefit being reallocated, such benefit shall be restored, including all protected benefits.

Section 15. HOW PLAN BENEFIT WILL BE DISTRIBUTED.

(a) Form of Distribution

Distribution of a Participant's Company Stock Account and Other Investments Account may be made in cash or Employer Securities unless a Participant elects to receive the distribution in the form of Employer Securities, in which case the Participant's Plan Benefit will be distributed in the form of whole shares of Employer Securities with the value of any fractional shares paid in cash.

(b) Beneficiaries.

(1) Designation.

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

(2) Absence of Valid Designation.

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

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

If the distribution of the Plan Benefit is made in the form of shares of Company Stock, then the "Qualified Holder" (as defined below) of such stock shall be granted, at the time that such shares are distributed to the Qualified Holder, an option to "put" the shares to the company; provided, however, that all such shares are so put; and provided, further, that the Trust shall have the option to assume the rights and obligations of the Company at the time the "put" option is exercised. The term "Qualified Holder" shall mean the Participant or Beneficiary receiving the distribution of such shares, any other party to whom the shares are transferred by gift or by reason of death, and also any trustee of an individual retirement account (as defined under Code Section 408) to which all or any portion of the distributed shares is transferred pursuant to a tax-free "rollover" transaction satisfying the requirements of Sections 402 and 408 of the Code. A "put" option shall provide that, for a period of sixty (60) days after such shares are distributed to a Qualified Holder (as defined above) (and, if the "put" is not exercised within such sixty

(60) day period, for an additional period of sixty (60) days in the following Plan Year), the Qualified Holder would have the right to have the Company purchase such shares at their fair market value, as defined hereinabove in subsection (a). Such "put" option shall be exercised by notifying the Company in writing.

In the case of a lump sum distribution of Company Stock, the terms of payment for the purchase of such shares of stock shall be as set forth in the "put" and may be paid either in a lump sum or in up to five (5) equal annual installments (with interest on the unpaid principal balance at a reasonable rate of interest), as determined by the Committee. Payment for the purchase of such

shares must commence within thirty (30) days after the "put" is exercised. The period during which the put option is exercisable does not include any time during which the distributee is unable to exercise it because the party bound by the put option is prohibited from honoring it by applicable federal or state law. If payment is made in installments, adequate security and a reasonable rate of interest must be provided. In the case of an installment distribution, payment must be made within thirty (30) days after the put option is exercised with respect to any installment distribution of Company Stock.

In the case of a purchase from a Disqualified Person, all purchases of Company Stock shall be made at prices which do not exceed the fair market value of such shares as of the date of the transaction. The term "Disqualified Person" shall mean a person who is a fiduciary with respect to the Plan; a person providing services to the Plan; an Employer any of whose employees are covered by the Plan; an employee organization any of whose members are covered by the Plan; an owner, directly or indirectly, of fifty percent (50%) or more of (i) the total combined voting power of all classes of voting stock or of the total value of all classes of the stock of a Corporation, (ii) the capital interest or the profits interest of a partnership, or (iii) the beneficial interest of a trust or unincorporated enterprise, which is an Employer or an employee organization any of whose employees or members are covered by the Plan; a member of the family of any Disqualified Person; a corporation, partnership, trust or estate of which (or in which) fifty percent (50%) or more of (i) the combined voting power of all classes of stock entitled to vote or the total value of all classes of stock of such corporation, (ii) the capital interest or profits interest of such partnership, or (iii) the beneficial interest of such trust or estate is owned, directly or indirectly, or held by Disqualified Persons; an employee, officer, director (or any individual having powers, similar powers and responsibilities), a ten percent (10%) or more shareholder, or a highly compensated employee (earning ten percent (10%) or more of the yearly wages of an employer) of a Disqualified Person; or a ten percent (10%) or more (in capital or profits) partner or joint venturer of a Disqualified Person.

The requirements of this Section shall apply to all distributions after December 31, 1986, but shall not apply to the distribution of any portion of a Participant's Plan Benefit which has been diversified, distributed or transferred to another plan pursuant to the provisions of Subsection 17(a) hereof.

Section 17. SPECIAL PROVISIONS.

(a) Diversification of Investments.

Within ninety (90) days after the close of each Plan Year in the Qualified Election Period, each Qualified Participant shall be permitted to direct the Plan as to the investment of not more than twenty-five percent (25%) of the value of the Participant's Company Stock Account which is attributable to Employer Securities which were acquired by the Plan after December 31, 1986, to the extent such value exceeds the amount to which a prior election, if any, applies. In the case of the sixth (6th) year of the Qualified Election Period, the preceding sentence shall be applied by substituting "fifty percent (50%)" for "twenty-five percent (25%)." The Participant's direction shall be completed no later than ninety (90) days after the close of the ninety (90) day election period.

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

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

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

(b) Cash Dividends.

Cash dividends, if any, on shares of Company Stock allocated to Participants' Accounts may be accumulated in the Trust or may be paid to Participants currently as determined in the sole discretion of the Committee, exercised in a uniform and nondiscriminatory manner. Provided that the Plan is primarily invested in Employer Securities, it is intended that the Company shall

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

allocated to such Participants. Effective for dividends paid after October 22, 1986, the Company shall be allowed a deduction for dividends paid only in the taxable year of the Company in which the dividend is either paid to a Participant or Beneficiary or held to make payments on a Securities Acquisition Loan.

(c) Advance Distributions.

At the request of a Participant who has participated in this plan for seven (7) or more years subsequent to January 1, 1985, the Committee shall direct the Trustee to pay to the Participant or to the Participant's Beneficiary an advance distribution not to exceed twenty-five percent (25%) of the Participant's vested Plan Benefit as then estimated by the Committee, for reason of hardship constituting immediate and heavy financial need.

At the request of a Participant who is then one hundred percent (100%) vested in a Plan Benefit, the Committee shall direct the Trustee to pay to the Participant or to the Participant's Beneficiary an advance distribution not to exceed one hundred percent (100%) of such Participant's vested Plan Benefit, for reason of hardship constituting immediate and heavy financial need.

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

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

If an advance distribution is made prior to a Participant attaining age 59-1/2, such Participant's distribution will be subject to a 10% penalty tax, in addition to ordinary income taxation.

Section 18. ADMINISTRATION.

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

(1) Board of Directors.

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

(A) Making decisions with respect to amending or terminating the Plan.

(B) Making decisions with respect to the selection, retention or removal of the Trustee.

(C) Periodically reviewing the performance of the Trustee, the members of the Committee, persons to whom duties have been allocated or delegated and any advisers appointed pursuant to paragraph (f) (1) below.

(D) Determining the form and amount of Employer Contributions.

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

(2) Plan Committee.

(A) General.

The Company shall administer the Plan and is designated as the "Plan Administrator" within the meaning of Section 3(16) of ERISA and Section 414(g) of the Code. The Committee and the Company shall each be a "named fiduciary" within the meaning of Section 402 of ERISA, but each party's role as a named fiduciary shall be limited solely to the exercise of its own authority and discretion, as defined under this Plan, to control and manage the operation and administration of this Plan. A named fiduciary may designate other persons who are not named fiduciaries to carry out its fiduciary duties hereunder, and any such person shall become a fiduciary under the Plan with respect to such delegated responsibilities. The members of the Committee shall be comprised of not less than three (3) persons who shall be appointed by the Board of Directors and who shall serve, without compensation, until such time as they resign, die or become incapable of exercising their duties. All members of the Committee are

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

(B) Duties and Responsibilities.

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

(i) Establishing and implementing a funding policy as described in Paragraph (c) below.

(ii) Determining the eligibility of Employees for participation in the Plan.

(iii) Determining the eligibility of Employees for benefits provided by the Plan including such duties and responsibilities as are necessary and appropriate under the Plan's claims procedures.

(iv) Making recommendations to the Board of Directors with respect to amendment or termination of the Plan, including recommendations with respect to contributions under the Plan.

(v) Assuring that bonding requirements imposed by ERISA are satisfied.

(vi) Authorizing, allocating and reviewing expenses incurred by the Plan.

(vii) Communicating with Participants and other persons.

(viii) Reviewing periodically any allocation or delegation of duties and responsibilities and any appointment of advisers.

(ix) Investing and controlling the Plan assets.

(x) Directing the Trustee with respect to voting shares of Company Stock, in accordance with the provisions of Section 9.

The Committee may establish rules and regulations and may take any other necessary or proper action to carry out its duties and responsibilities. Notwithstanding the foregoing provisions, the Trustee shall have the primary responsibility for the withholding of income taxes from Plan distributions, for the payment of withheld income taxes on Plan distributions to the Internal Revenue Service, and for notification to Participants of their right to elect not to have income tax withheld from Plan distributions. Compliance with record keeping and reporting requirements of ERISA shall be the primary responsibility of the Company.

(C) Allocation and Delegation of Responsibilities.

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

(b) Investment of Plan Assets.

The Plan assets shall be invested and controlled by the Committee; provided, however, that the actual management of Trust investments, other than Company Stock, may be delegated to the Trustee or may be delegated to one or more investment managers appointed by the Committee. Any investment manager appointed hereunder shall have the power to manage, acquire or dispose of assets of the Plan and shall be either an investment adviser registered under the Investment Advisers Act of 1940, or a bank, as defined in that Act, or an insurance company qualified to perform such services under the laws of one or more states. If an investment manager has been appointed, the Trustee shall neither be liable for acts or omissions of such investment manager nor be under any obligation to invest or otherwise manage any asset of the Trust fund, nor shall the Committee be liable for any act or omission of the investment manager

in carrying out such responsibility. The custody of Plan assets shall at all times be retained by the Trustee, unless they consist of insurance contracts or policies issued and held by an insurance company authorized to conduct an insurance business in a state. In addition to appointment of investment managers, the Committee shall have the following duties and responsibilities:

(1) Periodically reviewing the investment of Plan assets and the performance of the Trustee and any investment managers. With respect to the Trustee, the Committee shall advise the Board of Directors of any matters which might be relevant to

the decision as to whether the services of the Trustee should be retained. Based on its review, the Committee shall determine the desirability of appointing or retaining investment managers.

(2) Determining an investment policy to be followed with respect to the Plan assets and communicating this policy to the person or persons responsible for investing the Plan assets.

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

(c) Funding Policy.

The Committee shall cause to be made at reasonable intervals an analysis of the future cash requirements of the Plan for payment of benefits and expenses, including in the analysis such information as may be appropriate to design an investment policy to satisfy the requirements.

(d) Claims Procedures.

Any person whose claim for benefits under the Plan has been denied in whole or in part shall receive a written notice from the Committee setting forth the specific reasons for such denial, specific references to the Plan provisions on which the denial was based and an explanation of the procedure for review of the denial. Such person, or a duly authorized representative, may appeal to the Committee for a review of the denial by sending to the Committee a written request for review within sixty (60) days after receiving notice of the denial. The request for review shall set forth all grounds on which it is based, together with supporting facts and evidence which the claimant deems pertinent, and the Committee shall give the claimant the opportunity to review pertinent documents in preparing the request. The Committee may require the claimant to submit such additional facts, documents or other material as it deems necessary or advisable in making its review. Within sixty (60) days after the receipt of the request for review, the Committee shall communicate to the claimant in writing its decision, and if the Committee confirms the denial, in whole or in part, the communication shall set forth the reasons for the decision and specific references to the Plan provisions on which the decision is based. Such decisions of the Committee shall be final and conclusive upon all parties.

(e) Qualified Domestic Relations Orders.

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

(2) In determining whether a Domestic Relations Order is qualified, the Committee shall follow the procedures set forth in Section 18(d) with respect to claims for Plan Benefits.

(3) A Domestic Relations Order will constitute a qualified Domestic Relations Order only if such order (i) does not require the Plan to provide any type or form of benefit (or any option) not otherwise provided under the Plan, (ii) does not require the Plan to provide increased benefits, and (iii) does not require the payment of benefits to an Alternate Payee which are required to be paid to another Alternate Payee under another order previously determined to be a qualified order. In addition, a Domestic Relations Order will constitute a qualified order only if such order clearly specifies (i) the name

and last known mailing address of the Participant and of each Alternate Payee covered by the order, (ii) the amount or the percentage of a Participant's Plan Benefit that is to be paid to each Alternate Payee, or the manner in which such amount or percentage is to be determined, (iii) the number of payments or the period to which such order applies, and (iv) each plan to which such order applies.

(4) In the case of any payment to an Alternate Payee before a Participant has separated from service, the Plan shall not be required to make any payment to an Alternate Payee prior to the date the Participant attains (or would have attained) the Earliest Retirement Age. For purposes of this Paragraph, the term "Earliest Retirement Age" means the earliest of (i) the date on which the Participant is entitled to a distribution under the Plan, or (ii) the later of the date the Participant attains age fifty (50) or the earliest date on which the Participant could begin receiving benefit if the Participant separated from service.

(f) General.

(1) The Board of Directors, the Committee or any person to whom duties and responsibilities have been allocated or delegated, may employ other persons for advice in connection with their respective responsibilities, including actuaries, plan consultants, investment advisers, attorneys and accountants.

(2) Any person may serve in more than one capacity with respect to the Plan.

(3) The Board of Directors, the Committee or any person to whom duties and responsibilities have been allocated or delegated shall be indemnified and held harmless by the Company from any expense or liability hereunder unless due to or arising from fraud, dishonesty, gross negligence, or misconduct of the Board of Directors, the Committee, or such person, as the case may be.

Section 19. AMENDMENT AND TERMINATION.

(a) Amendment.

To provide for contingencies which may require or make advisable the clarification, modification or amendment of this Agreement, the Company reserves the right to amend the Plan at any time and from time to time, in whole or in part, including without limitation, retroactive amendments necessary or advisable to qualify the Plan and Trust under the provisions of Sections 401(a) and 4975(e)(7) of the Code or any successor or similar statute hereafter enacted. However, no such amendment shall (1) cause any part of the assets of the Plan and Trust to revert to or be recoverable by the Company or be used for or diverted to purposes other than the exclusive benefit of Participants, former Participants and Beneficiaries, (2) deprive any Participant, former Participant or Beneficiary of any benefit already vested, except to the extent that such amendment may be necessary to permit the Plan or the Trust to qualify or continue to qualify as tax-exempt, (3) terminate the protections and rights described in Section 16, (4) alter, change or modify the duties, powers or liabilities of the Trustee hereunder without its written consent, or (5) with respect to any benefit previously accrued, eliminate or reduce any early retirement benefit or retirement type subsidy, or eliminate any optional form of benefit, except to the extent permitted by Section 411(d)(6) of the Code.

(b) Changes in the Code.

Any other provision of this Plan to the contrary notwithstanding, if any amendment to the Code requires that a conforming plan amendment must be adopted effective as of a stated effective date in order for this Plan to continue to be a qualified plan, this Plan shall be operated in accordance with the requirement of such amendment to that law until the date when a conforming plan amendment is adopted, or the date when a clear and unambiguous nonconforming plan amendment is adopted, whichever occurs first.

(c) Termination, Partial Termination or Complete Discontinuance of Contributions.

Although the Company has established the Plan with the bona fide intention and expectation that it will be able to make contributions indefinitely, nevertheless, the Company shall not be under any obligation or liability to continue its contributions or to maintain the Plan for any given length of time. The Company may in its sole discretion discontinue such contributions or terminate the Plan in whole or in part in accordance with its provisions at any time without any liability for such discontinuance or termination. In the event of a termination or complete discontinuance of contribution, if the Plan is not replaced by a comparable plan qualified under Section 401(a) of the Code, then the Accounts of all Participants affected by the termination or discontinuance of contributions will become nonforfeitable. In the event of a partial termination, the Accounts of all Participants affected by the partial termination will become nonforfeitable. After termination of the Plan, the Committee and the Trust will continue until the Plan benefit of each Participant has been distributed. Plan Benefits may be distributed promptly after they are computed or distribution may be deferred as provided in Section 14 of the Plan, as the Committee may direct. Distributions made due to termination of the Plan shall be in accordance with the modes of distribution provided in the Plan.

(d) Determination by Internal Revenue Service.

Notwithstanding any other provision of the Plan, if the Internal Revenue Service shall fail or refuse to issue a favorable written determination or ruling with respect to the continued qualification of the Plan and exemption

of the Trust from tax under Section 501(a) of the Code, all Employer Contributions under Section 401(a), together with any income received or accrued thereon less any benefits or expenses paid shall, upon the written direction of the Company, be deemed held by the Trustee under the Employee Stock Ownership Plan as it existed prior to the adoption of this Plan and this Plan and the Trust shall terminate.

(e) Return of Employer's Contribution.

Notwithstanding any other provision of the Plan, if a Contribution is conditioned on its deductibility and the deduction is disallowed, such Employer Contribution may be returned to the Employer if such Contribution is returned within one (1) year thereafter and if the amount returned does not exceed the excess of the actual Contribution over the amount which would have been

contributed had there been no error in determining the deduction. If a Contribution is made due to a mistake of fact, such Contribution may be returned to the Employer if such Contribution is returned within six (6) months after the Plan Administrator determines that the Contribution was made by such mistake and if the amount returned does not exceed the excess of the actual Contribution over the amount which would have been contributed had there been no mistake of fact. Earnings of the Plan attributable to the excess Contribution may not be returned to the Employer, but any losses attributable thereto must reduce the amount so returned.

Section 20. MISCELLANEOUS.

(a) Participation by Affiliated Company.

(1) Any Affiliated Company presently existing or hereafter acquired may, with the consent of the Company, adopt the Plan and Trust and thereby enable its employees to participate herein.

(2) In the event any Participant is transferred to an Affiliated Company which is a participating Employer, such Participant shall continue to participate hereunder in the allocation of Employer Contributions and the Participant's Accounts shall continue to vest in accordance with Section 13. Any Participant who is transferred to an Affiliated Company which is not a participating Employer shall be treated as a suspended Participant in accordance with Section 4(c).

(b) Limitation of Rights; Employment Relationship.

All Plan Benefits will be paid only from the Trust assets and neither the Company nor any Employer nor the Committee nor the Trustee shall have any duty or liability to furnish the Trust with any funds, securities or other assets except as expressly provided in the Plan. Nothing herein shall be construed to obligate any Employer to continue to employ any Employee.

(c) Merger; Transfer of Assets.

In no event shall this Plan be merged or consolidated with any other employee benefit plan, nor shall there be any transfer of assets or liabilities from this Plan to any other such plan, unless immediately after such merger, consolidation or transfer, each Participant's benefits, determined as if the plan had terminated, are at least equal to or greater than the benefits which the Participant would have been entitled to had this Plan been terminated immediately before such merger, consolidation or transfer.

(d) Prohibition Against Assignment.

The benefits provided by this Plan may not be assigned or alienated; provided, however, that a qualified Domestic Relations Order shall not be construed as an assignment or alienation. Except for indebtedness to the Trust and orders to make payments or assign benefits to a spouse, former spouse, child or other dependent under a qualified Domestic Relations Order, neither the Company nor the Trustee shall recognize any transfer, mortgage, pledge, hypothecation, order or assignment by any Participants or Beneficiaries of all or part of their interest hereunder, and such interest shall not be subject in any manner to transfer by operation of law, and shall be exempt from the claims of creditors or other claimants from all orders, decrees, levies, garnishment and/or executions and other legal or equitable process or proceedings against such Participants or Beneficiaries to the fullest extent which may be permitted by law.

(e) Applicable Law; Severability.

The Plan hereby created shall be construed, administered and governed in all respects in accordance with ERISA and to the extent not superseded by federal law, in accordance with the laws of the State of California; provided, however, that if any provision is susceptible of more than one interpretation, such interpretation shall be given thereto as is consistent with the Plan being a qualified Employee Stock Ownership Plan within the meaning of the Code. If any provision of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

Section 21. TOP HEAVY PROVISIONS.

(a) Definitions.

For purposes of this Section 21, the following capitalized words shall have the following meanings:

AGGREGATION GROUP

(1) Required Aggregation Group: In determining a Required Aggregation Group hereunder, each plan of the Employer in which a Key Employee is a participant, and each other plan of the Employer which enables any plan in

which a Key Employee participates to meet the requirements of Code Sections 401(a)(4) or 410, will be required to be aggregated. Such group shall be known as a Required Aggregation Group.

In the case of a Required Aggregation Group, each plan in the group will be considered a Top Heavy Plan if the Required Aggregation Group is a Top Heavy Group. No plan in the Required Aggregation Group will be considered a Top Heavy Plan if the Required Aggregation Group is not a Top Heavy Group.

(2) Permissive Aggregation Group: The Employer may also include any other plan not required to be included in the Required Aggregation Group, provided the resulting group, taken as a whole, would continue to satisfy the provisions of Code Sections 401(a)(4) and 410. Such group shall be known as a Permissive Aggregation Group.

In the case of a Permissive Aggregation Group, only a plan that is part of the Required Aggregation Group will be considered a Top Heavy Plan if the Permissive Aggregation Group is a Top Heavy Group. No plan in the Permissive Aggregation Group will be considered a Top Heavy Plan if the Permissive Aggregation Group is not a Top Heavy Group.

(3) Only those plans of the Employer in which the Determination Dates fall within the same calendar year shall be aggregated in order to determine whether such plans are Top Heavy Plans.

(4) An Aggregation Group shall include any terminated plan of the Employer if it was maintained within the last five (5) years ending on the Determination Date.

DETERMINATION DATE

With respect to any Plan Year, the last day of the preceding Plan Year, or in the case of the first Plan Year of any Plan, the last day of such Plan Year.

KEY EMPLOYEE

Any Employee, or former Employee, or Beneficiary of an Employee or former Employee, who at any time during the Plan Year containing the Determination Date or during any of the four (4) preceding Plan Years is (or was) (i) an officer (and employee) having an annual compensation greater than fifty percent (50%) of the amount in effect under Section 415 (b) (1) (A) of the Code for any such Plan Year, (ii) a shareholder (and employee) who owns (excluding any stock held under the Plan) both more than one-half percent (.5%) ownership interest in value and one of the ten (10) largest interests in the Company (whether directly or through constructive ownership rules) and having annual compensation of more than the limitation in effect under Section 415 (c) (1) (A) of the Code, (iii) a more than five percent (5%) shareholder, or (iv) a more than one percent (1%) shareholder if such shareholder receives more than \$150,000 of compensation from the Company during the Plan Year. For purposes of (iii) and (iv) above, the terms "five percent (5%) shareholder" and "one percent (1%) shareholder" mean any employee who owns (excluding any stock held under the Plan) more than five percent (5%) (or more than one percent (1%) of the outstanding stock of the corporation, or who owns stock possessing more than five percent (5%) (or one percent (1%) of the total combined voting power of all stock of the corporation (determined without regard to the aggregation rules under Section 414 of the Code). For purposes of (ii) above, if two or more Employees have the same interest in the Company, the Employee having the greater annual compensation from the Company shall be treated as having the larger interest. For purposes of (i) above, the term "officers" means persons whose regular duties include executive administrative duties; however, no more than three (3) Employees or ten percent (10%) of all Employees (up to a maximum of fifty (50) Employees), whichever is greater, may be counted as officers. If the number of officers of the Company exceeds these limitations, those officers with the highest compensation in the Plan Year containing the Determination Date or any of the four preceding Plan Years shall be treated as Key Employees.

NON-KEY EMPLOYEE

Any Employee who is not a Key Employee.

TOP HEAVY GROUP

Any Aggregation Group, if as of the Determination Date, the sum of (1) the present value of the accrued benefits for Key Employees under all defined benefit plans included in such group and (2) the aggregate Account balances of Key Employees under all defined contribution plans included in such group, exceeds sixty percent (60%) of a similar sum determined for all Employees.

TOP HEAVY PLAN

With respect to any Plan Year, of the Company or of any Affiliated Company, any plan or Aggregation Group of plans of the Company or of any Affiliated Company if, as of the Determination Date, the aggregate Account balances of Key Employees under the plan or plans exceeds sixty percent (60%) of the aggregate Account balances of all Employees under such plan or plans. For purposes of this definition, the term, "Account balances" shall include Account balances of Participants attributable to Employer Contributions, the Account balances attributable to Employees' Nondeductible Contributions, and the amount of the aggregate distributions, if any, made with respect to any Participant during the five (5) year period ending on the Determination Date, including any distributions under a terminated plan which would have been required to be included in an aggregation group had such plan not been terminated. The Account balances of an individual shall not be taken into account if such individual has not performed any services for the Company at any time during the five year period ending on the Determination Date. The Account balances of a non-key employee with respect to any Plan Year shall not be taken into account if such individual was formerly a Key Employee for any prior Plan Year. Any rollover contributions or transfers that are unrelated (i.e., both initiated by the Employee and made from a plan maintained by one Employer to a plan maintained by another Employer) shall not be taken into account for purposes of determining whether a plan is a Top Heavy Plan or whether any Aggregation Group is a Top Heavy Group.

(b) Vesting Requirements.

With respect to any Plan Year, if as of the relevant Determination Date, this Plan is deemed to be a Top Heavy Plan or part of a Top Heavy Group, the vesting of Plan Benefits for such Plan Year with respect to any Participant who completes one or more Hours of Service after the Plan becomes a Top Heavy Plan or part of a Top Heavy Group will be based upon Years of Service, as defined in Section 2 in accordance with the following vesting schedule, until such time as the Plan is no longer deemed to be top heavy:

Years of Service	Percentage of Accounts Vested
Two Years	20
Three Years	40
Four Years	60
Five Years	80
Six Years or More	100

With respect to any Plan Year, if as of the relevant Determination Date, this Plan ceases to be a Top Heavy Plan or part of a Top Heavy Group, any portion of the accrued benefit of a Participant's Account that was nonforfeitable before the Plan ceased to be top heavy will remain nonforfeitable, and any Employee who was a Participant during the Top Heavy Plan Year and who had three or more Years of Service (including any Years of Service not yet taken into account under the Plan) will automatically remain under the top heavy vesting schedule.

(c) Minimum Benefits.

With respect to any Plan Year, if as of the relevant Determination Date, this Plan is deemed to be a Top Heavy Plan or part of a Top Heavy Group, Employer Contributions and Forfeitures for such Plan Year for each Participant who is not a Key Employee shall be not less than three percent (3%) of each Participant's Total Compensation until such time as this Plan is no longer deemed to be top heavy. Notwithstanding the foregoing, such percentage for any such Plan Year shall not exceed the highest percentage at which Contributions and Forfeitures are made for such Plan Year for any Key Employee, as determined by dividing the Contribution for such Key Employee by so much of such Key Employee's Total Compensation for the Plan Year as does not exceed \$200,000. The minimum benefit otherwise required under this paragraph shall be reduced to the extent a Participant who is not a Key Employee has received a benefit under any other plan maintained by the Employer and to the extent permitted by Section 416 of the Code and the regulations thereunder dealing with nonduplication of minimum benefits.

Amounts paid by the Company under the Federal Insurance Contributions Act or under the Social Security Act may not be taken into account for purposes of providing the required minimum benefits to Participants who are not Key Employees.

For purposes of this Subsection (c), the term "Participant" shall refer to any Employee who has not separated from service at the end of the Plan Year, including Employees who have failed to complete 1,000 Hours of Service, and any Employees who have been excluded because their compensation is less than a stated amount but who must nevertheless be considered Participants in order to satisfy the coverage requirements of Section 410(b) of the Code.

(d) Limitation on Annual Additions.

With respect to any Plan Year, if as of the relevant Determination Date, this Plan is deemed to be a Top Heavy Plan or part of a Top Heavy Group, the dollar limitation in the denominator of the defined contribution plan fraction and the defined

benefit fraction shall be multiplied by 1.0 rather than by 1.25, for purposes of determining the aggregate limit on Contributions and Forfeitures for a Key Employee for such Plan Year, unless the sum of the Key Employees' benefits under all defined contribution plans does not exceed ninety percent (90%) of the total of all Participants' benefits for such Plan Year, and the Employer provides a minimum contribution of not less than four percent (4%) of each Participant's Total Compensation. The minimum benefit otherwise required under this paragraph shall be reduced to the extent a Participant who is not a Key Employee has received a benefit under any other plan maintained by the Employer and to the extent permitted by Section 416 of the Code and the regulations there under dealing with nonduplication of minimum benefits.

With respect to any Plan Year, if, as of the relevant Determination Date, any Employee is covered by both a top heavy defined contribution plan and a top heavy defined benefit plan, the minimum benefit provided for each such Participant who is not a Key Employee under the defined contribution plan shall be not less than five percent (5%) of the Participant's Total Compensation; provided, however, that if the Employer desires to use a factor of 1.25 in computing the denominators of the defined benefit fraction and in the denominator of defined contribution fraction, the defined contribution minimum benefit shall be seven and one-half percent (7.5%) of compensation.

Solely for the purpose of determining if the Plan, or any other plan included in a required Aggregation Group of which this Plan is a part, is a Top Heavy Plan, the accrued benefit of an Employee (other than a Key Employee under a defined benefit plan or target benefit plan) shall be determined under (i) the method, if any, that uniformly applies for accrual purposes under all plans maintained by the Affiliated Employers, or (ii) if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional accrual rate of Section 411(b)(1)(C) of the Code.

Section 22. EXECUTION.

To record the adoption of this Plan, the Company has caused its appropriate officers to affix its corporate name and seal hereto this 1/st/ day of August, 1994.

McGRATH RENTCORP

(SEAL)

By /s/ ROBERT P. MCGRATH

Robert P. McGrath, President

By /s/ DELIGHT SAXTON

Delight Saxton, Secretary

AMENDMENT NUMBER 1

MCGRATH RENTCORP

EMPLOYEE STOCK OWNERSHIP PLAN

Pursuant to and in accordance with the provisions of Section 19 of the McGrath Rentcorp Employee Stock Ownership Plan, the Board of Directors of McGrath Rentcorp does hereby amend said Plan as follows:

Section 2: This Section is amended to add the following definition:

"MONTH OF SERVICE

"For purposes of the definition of Units, a Participant shall be credited with a Month of Service for each calendar month during the Plan Year in which the Participant is credited with at least one Hour of Service."

Subsection 14(h): This Subsection is amended by deleting the phrase "after January 1, 1993" and replacing it with the phrase "on or after January 1, 1993."

Subsection 21(c): This Subsection is amended in its entirety to read as follows:

"(c) Minimum Benefits.

"With respect to any Plan Year, if as of the relevant Determination Date, this Plan is deemed to be a Top Heavy Plan or part of a Top Heavy Group, Employer Contributions and Forfeitures for such Plan Year for each Participant who is not a Key Employee shall be not less than three percent (3%) of each Participant's Total Compensation until such time as this Plan is no longer deemed to be top heavy. Notwithstanding the foregoing, such percentage for any such Plan Year shall not exceed the highest percentage at which Contributions and Forfeitures are made for such Plan Year for any Key Employee, as determined by dividing the Contribution for such Key Employee by so much of such Key Employee's Total Compensation (including any salary deferrals) for the Plan Year as does not exceed \$200,000 (or \$150,000 for Plan Years beginning on or after January 1, 1994). Elective contributions on behalf of Key Employees are taken into account in determining the minimum required contribution under Section 416(c)(2). However, elective contributions on behalf of Employees other than Key Employees may not be treated as Employer contributions for purposes of the minimum contribution or benefit requirement of Section 416 of the Code.

"Amounts paid by the Company under the Federal Insurance Contributions Act or under the Social Security Act may not be taken into account for purposes of providing the required minimum benefits to Participants who are not Key Employees.

"For purposes of this Subsection (c), the term 'Participant' shall refer to any Employee who has not separated from service at the end of the Plan Year, including Employees who have failed to complete 1,000 Hours of Service, and any Employees who have been excluded because their compensation is less than a stated amount but who must nevertheless be considered Participants in order to satisfy the coverage requirements of Section 410(b) of the Code."

This Amendment to said Plan shall be effective as of January 1, 1989.

MCGRATH RENTCORP

Date: July 2, 1996

By /s/ DENNIS C. KAKURES

Dennis C. Kakures, President

(SEAL)

By /s/ DELIGHT SAXTON

Delight Saxton, Secretary

AMENDMENT NUMBER 2

McGRATH RENTCORP

EMPLOYEE STOCK OWNERSHIP PLAN

Pursuant to and in accordance with the provisions of Section 19 of the McGrath RentCorp Employee Stock Ownership Plan, the Board of Directors of McGrath RentCorp does hereby amend said Plan as follows:

Subsection 1(b): The first sentence of this Subsection is amended to read as follows:

"This Plan, originally effective as of January 1, 1985, is amended effective as of January 1, 2000 (except that provisions which are required to be effective before this date in accordance with the Uruguay Round Agreements Act (GATT), the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA), the Small Business Job Protection Act of 1996 (SBJPA) (including those changes that are first effective in plan years beginning after December 31, 1998), the Taxpayer Relief Act of 1997 (TRA'97) (collectively `GUST'), the Restructuring & Reform Act of 1998 (RRA'98) and the Community Renewal Tax Relief Act of 2000 (CRA), are hereby generally applicable to the Plan Years beginning after December 31, 1996, unless an earlier or later effective date is required pursuant to a statute or Treasury Regulation or as stated in the Plan document)."

Section 2: The definition of the term "AFFILIATED COMPANY" is amended by adding the following sentence to the end of this definition:

"For purposes of Code Section 415 limits, the definition of Affiliated Company shall be expanded in accordance with Code Section 415(h)."

Section 2: The definition of the term "ANNUAL ADDITIONS" is amended by adding the following sentence to the end of this definition:

"For purposes of Code Section 415 limits, the definition of Annual Additions shall be expanded in accordance with Code Section 415(h)."

Section 2: The definition of "COVERED COMPENSATION" is amended by adding the following to the end of this definition:

"Effective for Plan Years beginning after December 31, 1996, the Plan is amended to delete the provision of family aggregation as described in Section 401(a)(17)(A) of the Code which requires certain Plan Participants, the spouse of such Participant, and any lineal descendants who have not attained age nineteen (19) before the close of the Plan Year to be treated as a single Participant for purposes of applying the limitation on compensation for a Plan Year."

Section 2: The definition of "EFFECTIVE DATE" is amended to read as follows:

"EFFECTIVE DATE

"This Plan, originally effective as of January 1, 1985, is amended effective as of January 1, 2000 (except that provisions which are required to be effective before this date in accordance with the Uruguay Round Agreements Act (GATT), the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA), those provisions of the Small Business Job Protection Act of 1996 (SBJPA) (including those changes that are first effective in plan years beginning after December 31, 1998), the Taxpayer Relief Act of 1997 (TRA'97) (collectively `GUST'), the Restructuring & Reform Act of 1998 (RRA'98) and the Community Renewal Tax Relief Act of 2000 (CRA), are hereby generally applicable to the Plan Years beginning after December 31, 1996, unless an earlier or later effective date is required pursuant to a statute or Treasury Regulation or as stated in the Plan document)."

Section 2: This Section is amended to add the following definition:

"ELIGIBILITY COMPUTATION PERIOD

"To determine Years of Service and Breaks in Service for purposes of eligibility, the initial 12-month period shall commence on the date the Employee first performs an Hour of Service for the Company. The second 12-month period shall be the Plan Year which commences prior to the end of the initial 12-month period, regardless of whether the Employee is entitled to be credited with 1,000 Hours of Service during the initial eligibility computation period. An Employee who is credited with 1,000 Hours of Service in both the initial eligibility computation period and the first Plan Year which commences prior to the first anniversary of the Employee's initial eligibility computation period will be credited with two Years of Service for purposes of eligibility to participate. All subsequent computation periods will continue to be determined on the Plan Year."

Section 2: Effective for all Plan Years beginning after December 31, 1999, the definition of "ELIGIBLE ROLLOVER DISTRIBUTION" is amended to read as follows:

"ELIGIBLE ROLLOVER DISTRIBUTION

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

Section 2: The definition of "HIGHLY COMPENSATED EMPLOYEE" is amended to read as follows:

"HIGHLY COMPENSATED EMPLOYEE

"Effective for Plan Years beginning after December 31, 1996, the term 'Highly Compensated Employee' shall mean: (a) a Highly Compensated Former Employee of the Company as well as (b) a Highly Compensated Current Employee. The term 'Highly Compensated Current Employee' shall mean any Employee who:

"(A) was a five percent (5%) owner at any time during the year or the preceding year, or

"(B) for the preceding year, had Total Compensation from the Company and/or from an Affiliated Company in excess of eighty thousand dollars (\$80,000) (indexed at such time and in such manner as the Secretary of the Treasury may provide), and was in the top-paid group of Employees (i.e., was among the top twenty percent (20%) of Employees in compensation) for such preceding year.

"For purposes of determining whether an employee is a Highly Compensated Employee for the Plan Year beginning in 1997, these changes are to be treated as having been in effect for the Plan Year beginning in 1996.

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

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

Section 2: The definition of "HOUR OF SERVICE" is amended by restating the first sentence in subsection (f) thereof to read as follows:

"For purposes of determining whether a Participant has incurred a one-year Break in Service, a Participant will be credited with Hours of Service for (i) a leave of absence covered by the Family and Medical Leave Act of 1993, effective as of August 5, 1993, or (ii) certain periods of absence from work by reason of the Participant's pregnancy, the birth of a Participant's child, the adoption of a Participant's child, or caring for a Participant's child during the period immediately following the birth or adoption of such child."

Section 2: Effective for all Plan Years beginning on or after January 1, 1997, the definition of "LEASED EMPLOYEE" is amended to read as follows:

"LEASED EMPLOYEE

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

Section 2: Paragraph (a)(1) of the definition of "TOTAL COMPENSATION" is amended by adding the following paragraph to the end of paragraph (a)(1):

"Effective for all Plan Years beginning on or after December 31, 1997, Total Compensation also includes Code Section 132(f) elective reductions, elective deferrals to Section 401(k) plans and similar arrangements (for example, Employer contributions under a salary reduction arrangement to purchase a Code Section 403(b) annuity); elective contributions to Code Section 457 nonqualified deferred compensation plans; and salary reductions made to a cafeteria plan.

Section 3: The first paragraph of this Section is amended to read as follows:

"Each Employee shall become a Participant in the Plan from and after the Entry Date coinciding with or next following the date on which the Employee has completed a Year of Service, measured during the Eligibility Computation Period, provided the Employee has attained age 21."

Subsection 4(a) The second paragraph of this Subsection is deleted.

Section 4: This Section is amended by adding the following new Subsection (e) to the end of this Section:

"(e) Uniformed Services Participants.

"Notwithstanding the foregoing, effective as of December 12, 1994, participation in the allocation of Employer Contributions and Forfeitures with respect to a Participant's qualified military service will be provided in accordance with Section 414(u) of the Code."

Subsection 11(b)(1): The first paragraph of this Subsection is amended to read as follows:

"The total Annual Additions to a Participant's Accounts for any Limitation Year shall not exceed the lesser of:

"(A) twenty-five percent (25%) of a Participant's Total Compensation; or

"(B) thirty thousand dollars (\$30,000), as may be increased pursuant to Section 415(c)(1)(A) of the Code."

This Subsection is further amended for Plan Years beginning on or after January 1, 2000 by adding the following to the end of this Subsection:

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

Subsection 11(b)(3): This Subsection is amended by adding the following to the end of this Subsection:

"Effective for all Limitation Years beginning after December 31, 1999, the combined plan limit is repealed, and therefore, this

Subsection 11(b)(3) is deleted from the Plan."

Subsection 13(a): The first sentence of this Subsection is amended to read as follows:

"The vesting of a Participant's Plan Benefit will be based upon Years of Service, as defined in Section 2, in accordance with the following vesting schedule:"

Subsection 13(c)(3): This Subsection is amended to read as follows:

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

Subsection 13(d): The last paragraph of this Subsection is amended to read as follows:

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

Subsection 14(c): This Subsection is deleted in its entirety and replaced with the following:

"If a Participant dies before distribution of the Participant's Plan Benefit has commenced, such Participant's entire Plan Benefit shall be distributed in accordance with Subsection 15(b) within five (5) years of the date of the Participant's death.

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

Subsection 14(e): The first sentence of this Subsection is amended to read as follows:

"Effective for all Plan Years beginning on or after August 5, 1997, if the present value of a Participant's Plan Benefit (determined in accordance with Section 411(a)(11)(B) of the Code) has ever exceeded five thousand dollars (\$5,000) (or for distributions made on or after October 17, 2000, if the value of the Plan Benefit exceeds five thousand dollars (\$5,000) at the time of the distribution), any distribution prior to the later of age sixty-two (62) or the Participant's Normal Retirement Date may be made only with the written consent of the Participant."

Subsection 14(f): This Subsection is deleted in its entirety and replaced with the following:

"(f) Required Commencement of Benefit Distribution.

"(1) Distribution of a Participant's Plan Benefit shall commence not later than sixty (60) days after the Anniversary Date coinciding with or next following the latest of (1) the Participant's Retirement, (2) the tenth (10th) anniversary of the date the Participant became a Participant, or (3) the Participant's separation from service. If the amount of a Participant's Plan Benefit cannot be determined (by the Committee) by the date on which a distribution is to commence, or the Participant cannot be located, distribution of the Participant's Plan Benefit shall commence within sixty (60) days after the date on which the Participant's Plan Benefit can be determined or after the date on which the Committee locates the Participant.

"(2) The distribution of the Plan Benefit of any Participant who attains age seventy and one-half (70 1/2) in a calendar year and either (1) has terminated or (2) is a five percent (5%) owner (as defined in Section 416(i)(1)(B)(i) of the Code) must commence not later than April 1 of the next calendar year and must be made in accordance with the regulations under Section 401(a)(9) of the Code, including Section 1.401(a)(9)-2. Effective as of January 1, 1989, the distribution of the Plan Benefit of any Participant who attains age

seventy and one-half (70 1/2) in a calendar year must commence not later than April 1 of the next calendar year (even if the Participant has not terminated) and must be made in accordance with the regulations under Section 401(a) (9) of the Code, including Section 1.401(a) (9)-2.

"Effective for all Plan Years beginning on or after January 1, 1998, except in the case of a five percent (5%) owner (as defined in Section 416(i) (1) (B) (i) of the Code), distributions shall commence in accordance with Subsection 14(f) (2) unless the Participant elects otherwise. In the event a Participant elects not to receive the distributions, or in the case of a Participant (other than a five percent (5%) owner) who has begun receiving distributions in accordance with this Subsection who elects to cease receiving such distributions, the distributions shall commence (or recommence) no

later than April 1 of the calendar year following the calendar year in which the Participant separates from service with the Employer."

Subsection 14(g): This Subsection is amended to read as follows:

"Any part of your Company Stock Account and Other Investments Account which is retained in the Trust after the Anniversary Date coinciding with or immediately following the date on which you terminate employment shall, as soon as possible after such Anniversary Date, be segregated and invested in assets of the trust other than Company Stock. However, except in the case of reemployment, none of your Accounts will be credited with any further Employer Contributions or Forfeitures. The undistributed Account under this Article is for reporting purposes only. Your undistributed Account will be treated for all other purposes as an Other Investments Account, except that such Account will not invest in the Plan's Company Stock Fund.

Section 17(a): The first paragraph in this Section is deleted and replaced by the following:

"(a) Diversification of Investments.

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

Subsection 19(c): This Subsection is deleted in its entirety and replaced with the following:

"(c) Termination, Partial Termination or Complete Discontinuance of Contributions.

"Although the Company has established the Plan with the bona fide intention and expectation that it will be able to make contributions indefinitely, nevertheless, the Company shall not be under any obligation or liability to continue its contributions or to maintain the Plan for any given length of time. The Company may in its sole discretion discontinue such contributions or terminate the Plan in whole or in part in accordance with its provisions at any time without any liability for such discontinuance or termination. In the event of a termination or complete discontinuance of contribution, if the Plan is not replaced by a comparable plan qualified under Section 401(a) of the Code, then the Accounts of all Participants affected by the termination or discontinuance of contributions will become nonforfeitable. In the event of a partial termination, the Accounts of all Participants affected by the partial termination will become nonforfeitable. After termination of the Plan, the Committee and the Trust will continue until the Plan Benefit of each Participant has been distributed. After termination of the Plan, the Trust will be maintained until the Plan Benefits of all Participants have been distributed. Plan Benefits may be distributed following termination of the Plan or distributions may be deferred and distributed as provided in Section 14, as the Company shall determine. If Plan Benefits will be distributed after the Plan is terminated, the distribution may be delayed until IRS approval is received. In the event that Company Stock is sold in connection with the termination of the Plan or the amendment of the Plan to become a qualified employee plan that is not a stock bonus plan, all Plan Benefits will be distributed in cash."

Subsection 20(d): This Subsection is amended by adding the following sentence to the end of this Subsection:

"Notwithstanding anything in Subsection 20(d) to the contrary, in accordance with the provisions of Code Section 401(a)(13) as amended by the Taxpayers Relief Act of 1997, Plan Benefits may be reduced to satisfy a Participant's liability to the Plan due to: the Participant's conviction of a crime involving the Plan; a judgment, consent order, or decree in an action for violation of fiduciary standards; or a

settlement involving the Department of Labor or the Pension Benefits
Guarantee Corporation."

Subsection 21(d): This Subsection is amended by adding the following sentence at
the end of the Subsection:

"The foregoing provisions of this Subsection 21(d) shall only be
applicable to Limitation Years beginning before December 31, 1999."

Except as otherwise noted, this Amendment to said Plan shall be effective as of January 1, 2000.

McGRATH RENTCORP

Date: October 16, 2001

By /s/ DENNIS C. KAKURES

Dennis C. Kakures, President

(SEAL)

By /s/ RANDLE F. ROSE

Randle F. Rose, Secretary

AMENDMENT NUMBER 3

McGRATH RENTCORP

EMPLOYEE STOCK OWNERSHIP PLAN

Pursuant to and in accordance with the provisions of Section 19 of the McGrath RentCorp Employee Stock Ownership Plan (the "Plan"), the Board of Directors of McGrath RentCorp (the "Company") does hereby amend said Plan as follows:

Subsection 1(b): This Subsection is amended by adding the following new paragraph to the end of this Subsection:

"Effective for all Plan Years beginning after December 31, 2001, this Plan reflects certain provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), intended as good faith compliance with the requirements of EGTRRA. Such EGTRRA provisions, if applicable, shall be construed in accordance with EGTRRA and the guidance issued thereunder, and shall supercede those specific provisions of the Plan to the extent those provisions are inconsistent with the EGTRRA provisions."

Section 2: The definition of "COVERED COMPENSATION" is amended by adding the following to the end of this definition:

"However, the Covered Compensation of each Participant taken into account in determining allocations for any Plan Year beginning after December 31, 2001, shall not exceed \$200,000, as adjusted for cost-of-living increases in accordance with Section 401(a)(17)(B) of the Code. Covered Compensation means compensation during the Plan Year or such other consecutive 12-month period over which compensation is otherwise determined under the Plan (the determination period). The cost-of-living adjustment in effect for a calendar year applies to annual compensation for the determination period that begins with or within such calendar year."

Section 2: The definitions of "ELIGIBLE RETIREMENT PLAN" and "ELIGIBLE ROLLOVER DISTRIBUTION" are amended to read as follows:

"ELIGIBLE RETIREMENT PLAN

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

"For purposes of distributions made after December 31, 2001, the definition of Eligible Retirement Plan shall also mean an annuity contract described in Section 403(b) of the Code and an eligible plan under Section 457(b) of the Code which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan. The definition of Eligible Retirement Plan shall also apply in the case of a distribution to a surviving spouse, or to a spouse or former spouse who is the Alternate Payee under a qualified Domestic Relation Order, as defined in Section 414(p) of the Code."

"ELIGIBLE ROLLOVER DISTRIBUTION

"Any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include: any hardship distribution, including but not limited to a hardship distribution, described in Section 401(k)(2)(B)(i)(IV), any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint

life expectancies) of the Distributee and the Distributee's designated Beneficiary, or for a specified period of ten (10) years or more; any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; and the portion of any distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to Employer Securities).

"Notwithstanding the foregoing, effective for all distributions made after December 31, 2001, for purposes of Section 14(h) of the Plan, a portion of a distribution shall not fail to be an Eligible Rollover Distribution merely because the portion consists of after-tax employee contributions which are not includable in gross income. However, such portion may be transferred only to an individual retirement account or annuity described in Section 408(a) or (b) of the Code, or to a qualified defined contribution plan described in Section 401(a) or 403(a) of the Code that agrees to separately account for amounts so transferred, including separately accounting for the portion

of such distribution which is includable in gross income and the portion of such distribution which is not so includable."

Section 4: This Section is amended by adding the following two provisions to the end of this Section:

"Omission of Eligible Employee.

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

"Inclusion of Ineligible Employee.

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

Subsection 11(b)(1): This Subsection is amended by adding the following paragraph to the end of this Subsection:

"Notwithstanding the foregoing, for Limitation Years beginning after December 31, 2001, except to the extent permitted under Section 414(v) of the Code, if applicable, the Annual Addition that may be contributed or allocated to a Participant's Account under the Plan for any Limitation Year shall not exceed the lesser of:

- "(i) \$40,000, as adjusted for increases in the cost-of-living under Section 415(d) of the Code, or
- "(ii) 100 percent of the Participant's compensation, within the meaning of Section 415(c)(3) of the Code, for the Limitation Year.

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

Subsection 14(e): This Subsection is amended by adding the following new sentence to follow after the first sentence of this Subsection:

"For all distributions made after December 31, 2001, with respect to all Participants, the value of a Participant's nonforfeitable account balance shall be determined without regard to that portion of the Plan Benefit, if any, attributable to any rollover contributions (and earnings allocable thereto) within the meaning of Sections 402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii), and 457(e)(16) of the Code."

Subsection 14(f): This Subsection is deleted in its entirety and replaced with the following:

"(f) Required Commencement of Benefit Distribution.

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

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

can be determined or after the date on which the Committee locates the Participant.

"(2) The distribution of the Plan Benefit of any Participant who attains age seventy and one-half (70 1/2) in a calendar year must commence not later than April 1 of the next calendar year (even if the Participant has not terminated). Effective for all Plan Years beginning on or after January 1, 1998, except in the case of a five percent (5%) owner (as defined in Section 416(i)(1)(B)(i) of the Code), distributions shall commence in accordance with Subsection 14(f)(2) unless the Participant elects otherwise. In the event a Participant elects not to receive the distributions, or in the

case of a Participant (other than a five percent (5%) owner) who has begun receiving distributions in accordance with this Subsection who elects to cease receiving such distributions, the distributions shall commence (or recommence) no later than April 1 of the calendar year following the calendar year in which the Participant separates from service with the Employer. All distributions made under this Subsection 14(f)(2) shall be determined and made in accordance with the Proposed Regulations under Section 401(a)(9), including the minimum distribution incidental benefit requirement of Section 1.401(a)(9)-2 of the Proposed Regulations.

"Notwithstanding the foregoing, effective for purposes of determining required minimum distributions for calendar years beginning with the 2003 calendar year, all distributions made under this Subsection 14(f) shall be determined and made in accordance with the final and temporary regulations under 401(a)(9), pursuant to Rev. Proc. 2002-29."

Section 14: This Section is amended by adding the following new Subsection (k) to this Section:

"(k) Automatic Rollovers.

"Any distribution in excess of \$1,000 may be made by transferring the amount to be distributed to an individual retirement plan designated by the Plan Committee, unless the Participant or Beneficiary entitled to receive the distribution elects (1) to receive the distribution directly, or (2) to have the distribution paid directly to another Eligible Retirement Plan as described in Section 10 of the Plan. The requirement of this paragraph shall not be effective until the effective date of regulations issued by the Department of Labor with respect to the requirements of the Plan Committee's selection of individual retirement plans."

Section 21: This Section is replaced in its entirety with the following:

"Section 21. TOP-HEAVY RULES.

"(a) Purpose and Effect

"The purpose of this Section 21 is to comply with the requirements of Section 416 of the Code. The provisions of this Section 21 are effective for each Plan Year beginning on or after the Effective Date in which the Plan is a 'Top-Heavy Plan' within the meaning of Section 416(g) of the Code.

"(b) Top-Heavy Plan

"In general, the Plan will be a Top-Heavy Plan for any Plan Year if, as of the 'Determination Date' (that is, the last day of the preceding Plan Year), the sum of the amounts in paragraphs (i), (ii) and (iii) below for Key Employees exceeds sixty percent of the sum of such amounts for all Employees who are covered by this Plan or by a defined contribution plan or defined benefit plan that is aggregated with this Plan in accordance with Section 21(d):

"(i) The aggregate Account balances of Participants under this Plan.

"(ii) The aggregate Account balances of Participants under any other defined contribution plan included under Section 21(d).

"(iii) The present value of the cumulative accrued benefits of Participants calculated under any defined benefit plan included in Section 21(d).

"In making the foregoing determination: (i) a Participant's Account balances or cumulative accrued benefits shall be increased by the aggregate distributions, if any, made with respect to the Participant during the 5-year period (or, for Plan Years commencing after 2001, the 1-year period, except with respect to in-service distributions, for which the 5-year period shall continue to apply) ending on the Determination Date, including distributions under a terminated plan that, if it had not been terminated, would have been

required to be included in the aggregation group, (ii) the Account balances or cumulative accrued benefits of a Participant who was previously a Key Employee, but who is no longer a Key Employee, shall be disregarded, (iii) the Account balances or cumulative accrued benefits of a Beneficiary of a Participant shall be considered Accounts or accrued benefits of the Participant, (iv) the Account balances or cumulative accrued benefits of a Participant who has not performed services for an Employer or an Affiliated Company at any time during the 5-year period (or, for Plan Years commencing after 2001, the 1-year period) ending on the Determination Date shall be disregarded and (v) any rollover contribution (or similar transfer) from a plan maintained by a corporation other than an Employer

under this Plan initiated by a Participant shall not be taken into account as part of the Participant's aggregate Account balances under this Plan.

"(c) Key Employee

"In general, a 'Key Employee' is an Employee (or a former or deceased Employee) who, at any time during the Plan Year (or, for Plan Years commencing before 2002, for any of the 4 preceding Plan Years), is or was:

"(i) for Plan Years commencing before 2002, an officer of an Employer having annual compensation greater than fifty percent of the amount in effect under Code Section 415(b)(1)(A) for any such Plan Year; for Plan Years commencing after 2001, an officer of the Employer having annual compensation greater than \$130,000, as adjusted from time to time by the Internal Revenue Service; provided that, for purposes of this paragraph, no more than fifty Employees of the Employer (or, if lesser, the greater of three Employees or ten percent of the Employees) shall be treated as officers;

"(ii) for Plan Years commencing before 2002, one of the ten Employees who have annual compensation from an Employer of more than the limitation in effect under Code Section 415(c)(1)(A) (the defined contribution maximum) for that year and owning or considered as owning, within the meaning of Section 318 of the Code, the largest interests in the Employer; provided that if two Employees have the same interest in the Employer, the Employee having greater annual compensation from the Employer shall be treated as having a larger interest;

"(iii) a five percent or greater owner of an Employer; or

"(iv) a one percent or greater owner of an Employer having annual compensation from the Employer of more than \$150,000 (as adjusted by the Internal Revenue Service).

"For purposes of this Section 21, the term 'compensation' means compensation as defined by Code Section 414(q)(7).

"(d) Aggregated Plans

"Each other defined contribution plan and defined benefit plan maintained by an Employer that covers a Key Employee as a Participant or that is maintained by an Employer in order for a plan covering a Key Employee to satisfy Section 401(a)(4) or 410 of the Code shall be aggregated with this Plan in determining whether this Plan is top-heavy. In addition, any other defined contribution or defined benefit plan of an Employer may be included if all such plans that are included, when aggregated, will not discriminate in favor of officers, shareholders or Highly Compensated Employees and will satisfy all of the applicable requirements of Sections 401(a)(4) and 410 of the Code.

"(e) Minimum Vesting

"For any Plan Year in which the Plan is a Top-Heavy Plan, the vested percentage of a Participant's Accounts shall not be less than the percentage determined under the following table:

Years of Service

Vested
Percentage

Less than 2	0
2	20
3	40
4	60
5	80
6 or more	100

"If the foregoing provisions of this Section 21(e) become effective, and the Plan subsequently ceases to be a Top-Heavy Plan, the Participant's vested Accounts shall not be reduced, and each Participant who has then completed three or more Years of Service may elect to continue to have the vested percentage of such Participant's Accounts determined under the provisions of this Section.

"(f) Minimum Employer Contribution

"Subject to the following provisions of this Section and Section 21(g), for any Plan Year in which the Plan is a Top-Heavy Plan, the Employer Contribution credited to each Participant who is not a Key Employee shall not be less than 3 percent of such Participant's compensation from the Employers for that year. In no event, however, shall the total Employer Contribution credited in any year to a Participant who is not a Key Employee (expressed as a percentage of such Participant's compensation from the Employers) be required to exceed the maximum total Employer Contribution credited in that year to a Key Employee (expressed as a percentage of such Key Employee's compensation from the Employers). Contributions made by an Employer under the Plan pursuant to Participants' income deferral authorizations shall not be deemed Employer Contributions for purposes of this Section. For Plan Years commencing after 2001, employer matching contributions (as defined in Code Section 401(m)(4)(A)) shall be taken into account for purposes of this paragraph. The amount of minimum Employer Contribution otherwise required to be allocated to any Participant for any Plan Year under this Section shall be reduced by the amount of Employer Contributions allocated to such Participant for a Plan Year ending with or within that Plan Year under any other tax-qualified defined contribution plan maintained by an Employer.

"(g) Coordination of Benefits

"For any Plan Year in which the Plan is top-heavy, in the case of a Participant who is a non-Key Employee and who is a Participant in a top-heavy tax-qualified defined benefit plan that is maintained by an Employer and that is subject to Section 416 of the Code, Section 21(f) shall not apply, and the minimum benefit to be provided to each such Participant in accordance with this Section 21 and Section 416(c) of the Code shall be the minimum annual retirement benefit to which such Participant is entitled under such defined benefit plan in accordance with such Section 416(c), reduced by the amount of annual retirement benefit purchasable with such Participant's Accounts (or portions thereof) attributable to Employer Contributions under this Plan and any other tax-qualified defined contribution plan maintained by an Employer."

Except as otherwise indicated, this Amendment to said Plan shall be effective as of January 1, 2002.

McGRATH RENTCORP

Date: November 22, 2002

By /s/ DENNIS C. KAKURES

Dennis C. Kakures, President

(SEAL)

McGRATH RENTCORP
EMPLOYEE STOCK OWNERSHIP TRUST AGREEMENT

McGRATH RENTCORP
EMPLOYEE STOCK OWNERSHIP TRUST AGREEMENT
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McGRATH RENTCORP

EMPLOYEE STOCK OWNERSHIP TRUST AGREEMENT

THIS AGREEMENT, between McGrath Rentcorp, hereinafter referred to as "Company," and Bank of California, N.A., hereinafter referred to as "Trustee," originally effective as of January 1, 1985, and amended and herein restated to be effective as of January 1, 1989 (except that provisions which are required to be effective before this date in accordance with the Tax Reform Act of 1986 are hereby generally applicable to the Plan Years beginning after 1988, unless an earlier or later effective date is required pursuant to a statute or Treasury Regulation or as stated in the Plan document),

W I T N E S S E T H:

WHEREAS, it is the policy of the Company to so finance and conduct its operations as to enable its employees and the employees of any participating affiliates to acquire through an Employee Stock Ownership Plan equity ownership in the Company; and

WHEREAS, the Company has restated the "McGrath Rentcorp Employee Stock Ownership Plan," hereinafter referred to as the "Plan," effective as of January 1, 1989; as an amendment and restatement of the Company's prior Employee Stock Ownership Plan; (except that provisions which are required to be effective before this date in accordance with the Tax Reform Act of 1986 are hereby generally applicable to the Plan Years beginning after 1988, unless an earlier or later effective date is required pursuant to a statute or Treasury Regulation or as stated in the Plan document); and

WHEREAS, the Company has designated the Plan and this Trust as constituting part of a plan intended to qualify under Section 401(a) of the Internal Revenue Code (hereinafter referred to as the "Code");

NOW THEREFORE, the parties hereto do hereby restate the McGrath Rentcorp Employee Stock Ownership Trust and agree the following shall constitute the Trust Agreement:

A. The Trust Assets.

(1) Employer Contributions shall be paid to the Trustee, from time to time, in accordance with the Plan. All Employer Contributions hereafter made and all investments thereof together with all accumulations, accruals, earnings and income with respect thereto shall be held by the Trustee in trust hereunder as the Trust Assets. The Trust Assets shall be received by the Trustee and invested pursuant to written instructions to the Trustee from the Committee. The Trustee shall not be responsible for the administration of the Plan, maintaining any records of Participants' Accounts under the Plan, or the computation of or collection of Employer Contributions, but shall hold, invest, reinvest, manage, administer and distribute the Trust Assets as provided herein for the exclusive benefit of Participants, retired Participants and their Beneficiaries.

(2) Unless otherwise directed by the Company or the Committee provided for in the Plan (hereinafter referred to as the "Committee"), the Trustee shall hold, invest and administer the Trust Assets as a single fund without identification of any part of the Trust Assets with or allocation of any part of the Trust Assets to the Company or to any affiliate of the Company designated by it as a participating Employer under the Plan or to any Participant or group of Participants of the Company or of any such affiliate or their Beneficiaries.

B. Investment.

(1) As directed by the Committee, the Trustee may invest and reinvest the Trust Assets without distinction between principal and income in Company Stock in accordance with the terms of the Plan and this Agreement. The Trustee may also, as directed by the Committee, invest funds in savings accounts, certificates of deposit, securities, or other equity stocks or bonds or in any other kind of real or personal property, including interests in oil or other depletable natural resources, options, puts, calls, futures contracts and commodities; or such funds may be held in non-interest-bearing bank accounts, as necessary on a temporary basis.

(2) The Plan assets shall be invested and controlled by the Committee; provided, however, that the actual management of Trust investments, other than Company Stock, may be delegated to the Trustee or may be delegated to one or more investment managers appointed by the Committee. Investments directed by the Committee shall not be in conflict with the "Prohibited Transactions" provisions of the Code as currently defined and as hereafter amended. The Trustee shall purchase or sell such shares of Company Stock, including shares of

stock of any classification issued by any subsidiary or affiliate of the Company, pursuant to direction from the Committee. The Trustee shall have no obligation whatsoever to seek or request any such direction from the Committee, nor shall the Trustee have any power or authority to dispose of any such Company Stock acquired pursuant to such direction unless directed by the Committee. The Trustee shall, subject to the limitations hereinafter set forth, be under a duty to

comply with any such direction when given, but shall have no responsibility whatsoever in connection with any such purchase, retention or sale, other than compliance with such direction.

(3) In the event the Trustee invests any part of the Trust Assets, pursuant to the directions of the Committee, in any securities issued or guaranteed by the Company or any subsidiary or affiliate of the Company, and the Committee thereafter directs the Trustee to dispose of such investment, or any part thereof, under circumstances which, in the opinion of counsel for the Company require registration of the securities under the Securities Act of 1933 and/or qualification of the securities under the Blue Sky laws of any state or states, then the Company, at its own expense, will take or cause to be taken any and all such action as may be necessary or appropriate to effect such registration and/or qualification.

C. Trustee's Powers.

As directed by the Committee, the Trustee shall have the authority and power to:

(1) Sell, transfer, mortgage, pledge, lease or otherwise dispose of, or grant options with respect to any securities or other property in the Trust at public or private sale;

(2) Subject to the restrictions set forth in Section 6 of the Plan, borrow from any lender to acquire Company Stock or any other property authorized by this Agreement, giving its note as Trustee with such interest and security for the loan as may be appropriate and necessary;

(3) Vote upon any stock, including Company Stock as prescribed in Paragraph D of this Agreement, bonds or other securities held in the Trust, or otherwise consent to or request any action on the part of the issuer in person or by proxy;

(4) Give general or specific proxies or powers of attorney with or without powers of substitution;

(5) Participate in reorganizations, recapitalizations, consolidations, mergers and similar transactions with respect to Company Stock or any other securities;

(6) Deposit such Company Stock or other securities in any voting trust, or with any protective or like committee, or with a trustee or with depositories designated thereby;

(7) Exercise any options, subscription rights and conversion privileges;

(8) Sue, defend, compromise, arbitrate or settle any suit or legal proceeding or any claim due it or on which it is liable;

(9) Contract or otherwise enter into transactions between itself as Trustee and the Company, its subsidiaries and shareholders of any of them;

(10) Perform all acts which the Trustee shall deem necessary and appropriate and exercise any and all powers and authority of the Trustee under this Agreement;

(11) Exercise any of the powers of an owner, with respect to such Company Stock and other securities or other property comprising the Trust Assets. Either the Company or the Committee may authorize the Trustee to act on any matter or class of matters with respect to which direction or instruction to the Trustee by the Committee is called for hereunder without specific direction or other instruction from the Committee.

D. Voting Company Stock.

If the shares of Company Stock are publicly traded, each Participant shall be entitled to vote any voting shares of Company Stock allocated to the Participant's Company Stock Account as of the record date. The Trustee shall notify or shall cause Employer to notify each Participant of each occasion for the exercise of voting rights not less than thirty (30) days before such rights are to be exercised. The notification shall include all information that the Employer distributes to shareholders regarding the exercise of such rights. Participants shall be allowed to vote fractional shares. Any shareholder rights other than voting rights (such as conversion rights) shall be subject to Participant control and direction under the same terms and conditions as set forth above. Any unallocated shares held by the Trust shall be voted by the Trustee in accordance with instructions from the Committee.

E. Nominees.

The Trustee may register any securities or other property held by it hereunder in its own name or in the name of its nominees with or without the addition of words indicating that such securities are held in a fiduciary capacity, and may hold any securities in bearer form, but the books and records of the Trustee shall at all times show that all such investments are part of the Trust.

F. Records.

The Trustee shall keep accurate and detailed accounts of all investments, receipts and disbursements and other transactions hereunder, and all accounts, books and records relating thereto shall be open to inspection by any person designated by the Committee or the Company at all reasonable times. The Trustee shall maintain such records, make such computations (except as concerns Employer and Employee Contributions), and perform such ministerial acts as the Committee may, from time to time, request.

G. Reports.

(1) Within sixty (60) days after the end of each taxable year of the Company, or the removal or resignation of the Trustee, and as of any other date specified by the Committee, the Trustee shall file a report with the Committee. This report shall show for each participating Employer all purchases, sales, receipts, disbursements, and other transactions effected by the Trustee during the year or period for which the report is filed, and shall contain an exact description, the cost as shown on the Trustee's books, and the market value as of the end of such period of every item held in the Trust and the amount and nature of every obligation owed by the Trust.

(2) The Trustee may rely without liability upon the valuation of Company Stock as determined by the Committee. The value placed upon such property by the Committee shall be conclusive and binding upon all parties with an interest herein.

H. Distributions.

(1) The Trustee shall make distributions from the Trust at such times and in such number of shares of Company Stock and amounts of cash to or for the benefit of the persons entitled thereto under the Plan as the Committee directs in writing. Any undistributed part of a Participant's Plan Benefit shall be retained in the Trust until the Committee directs its distribution. Any portion of a Participant's Plan Benefit to be distributed in cash shall be paid by the Trustee, mailing its check to the person entitled to receive the distribution at that person's address of record. If a dispute arises as to who is entitled to or should receive any benefit or payment, the Trustee may withhold or cause to be withheld such payment until the dispute has been resolved.

(2) As directed by the Committee, the Trustee shall make payments out of the Trust Assets. Such directions or instructions need not specify the purpose of the payments so directed, and the Trustee shall not be responsible in any way respecting the purpose or propriety of such payments.

(3) No distribution or payment under this Agreement to any Participant or the Participant's Beneficiary under the Plan shall be subject in any manner to anticipation, sale, transfer, assignment or encumbrance, whether voluntary or involuntary, and no attempt so to anticipate, sell, transfer, assign or encumber the same shall be valid or recognized by the Trustee, nor shall any such distribution payment be in any way liable for, or subject to, the debts, contracts, liabilities or torts of any person entitled to such distribution or payment, except to such an extent as may be ordered under a Qualified Domestic Relations Order, as provided for in the Plan. If the Trustee is notified by the Committee that any such Participant or Beneficiary has been adjudicated bankrupt or has purported to anticipate, sell, transfer, assign or encumber any such distribution or payment, voluntarily or involuntarily, the Trustee shall if so directed by the Committee, hold or apply such distribution payment or any part thereof to or for the benefit of such Participant or Beneficiary in such manner as the Committee shall direct.

(4) In the event that any distribution or payment directed by the Committee shall be mailed by the Trustee to the person specified in such direction at the latest address of such person filed with the Committee, and shall be returned to the Trustee because such person cannot be located at such address, the Trustee shall promptly notify the Committee of such return. Upon the expiration of sixty (60) days after such notification, such direction shall become void, and unless and until a further direction by the Committee is received by the Trustee with respect to such distribution or payment, the Trustee shall thereafter continue to administer the Trust as if such direction had not been made by the Committee. The Trustee shall not be obligated to search for or ascertain the whereabouts of any such person.

(5) The Plan Trustee shall have the primary responsibility for the withholding of income taxes from Plan distributions, for the payment of withheld income taxes on Plan distributions to the Internal Revenue Service and to appropriate state agencies, and for notification to Participants of their right to elect not to have income tax withheld from Plan distributions.

I. Signatures.

All communications required hereunder from the Company or the Committee to the Trustee shall be in writing, signed by an officer of the Company or a person authorized by the Committee to sign on its behalf. The Committee shall authorize one or more individuals to sign, on its behalf, all communications required hereunder between the Committee and the Trustee. The Company and the Committee shall at all times keep the Trustee advised of the names and specimen signatures of all members of the Committee and the individuals authorized to sign on behalf of the Committee.

The Trustee shall be fully protected in relying on any such communication and shall not be required to verify the accuracy or validity thereof unless it has reasonable grounds to doubt the authenticity of any signature. If after request the Trustee does not receive instructions from the Committee on any matter in which instructions are required hereunder, subject to the provisions of Paragraph D hereof, the Trustee shall act or refrain from acting as it may determine. All communications required hereunder from the Trustee shall be in writing, signed by the Trustee.

J. Expenses.

The Trustee and the Committee may employ suitable agents and counsel who may be counsel for the Company. The Company shall pay all expenses in connection with the design, establishment, or termination of the Plan. The Trust shall pay all costs of administering the Plan, unless such expenses are paid by the Company. However, normal brokerage charges, commissions, taxes and other costs incident to the purchase and sale of securities which are included in the cost of securities purchased, or charged against the proceeds in the case of sales, shall be charged to and paid out of Trust Assets. Any expenses paid by the Trust shall be reasonable and necessary. The Plan shall not pay, directly or indirectly, any commissions with respect to the purchase of Employer Securities. The Trustee shall be entitled to compensation as may be agreed upon in writing, from time to time, between the Committee and the Trustee; provided, however, that no person (serving as a fiduciary) who already receives full-time pay from the Company shall receive any compensation from the Plan, except for reimbursement of expenses properly and actually incurred.

K. Liability of Trustee.

Subject to the provisions of the Employee Retirement Income Security Act of 1974 (hereinafter referred to as ERISA), neither the Trustee nor the Committee shall be liable for any expense or liability hereunder unless due to or arising from fraud, dishonesty, negligence or misconduct of the Trustee or Committee. Except as thus provided, the Trustee shall not be liable for the making, retention or sale of any investment or reinvestment made by the Trustee as herein provided, nor for any loss to or diminution of the Trust Assets, nor for any action which the Trustee takes or refrains from taking which the Trustee deems in good faith to be in the best interests of the Trust or which the Trustee takes or refrains from taking at the direction of the Committee or Company. Except as thus provided, the Committee shall not be liable for the making, retention or sale of any investment or reinvestment made by the Committee as herein provided, nor for any loss to or diminution of the Trust Assets, nor for any action which the Committee takes or refrains from taking which the Committee deems in good faith to be in the best interests of the Trust or which the Committee takes or refrains from taking at the direction of the Company. The Trustee shall not be required to pay interest on any part of the Trust Assets which are held uninvested pursuant to the Committee's direction.

L. Amendment and Termination.

(1) The Company shall have the right at any time, by an instrument or in writing duly executed and acknowledged and delivered to the Trustee, to modify, alter or amend this Agreement, in whole or in part, and to terminate the Trust, in accordance with the express provisions of the Plan. The Company shall have the right, to the extent provided by law, to amend this Agreement retroactively to its effective date in order to satisfy initially the requirements of Section 401(a) of the Code, and to terminate this Agreement in the event of failure of the Internal Revenue Service, after application, to determine that the Plan and the Trust initially satisfy the requirements of Section 401(a) of the Code. In no event, however, shall the duties, power or liabilities of the Trustee hereunder be changed without its prior written consent.

(2) Notwithstanding any other provision of the Trust, if the Internal Revenue Service shall fail or refuse to issue a favorable written determination or ruling with respect to the continued qualification of the Plan and exemption of the Trust from tax under Section 401(a) of the Code, all Employer Contributions under Section 401(a), together with any income received or accrued thereon less any benefits or expenses paid shall, upon the written direction of the Company, be deemed held by the Trustee under the Employee Stock Ownership Plan as it existed prior to the adoption of this Plan and this Plan and the Trust shall terminate.

M. Irrevocability.

Subject to the provisions of Paragraph L, this Trust is declared to be irrevocable and at no time shall any part of the Trust Assets revert to or be recoverable by the Company or by any participating Employer or be used for or be diverted to purposes other than for the exclusive benefit of Participants or

retired or terminated Participants and their Beneficiaries. However, the Committee may, by notice in writing to the Trustee, direct that all or part of the Trust Assets be transferred to a successor Trustee or Trustees under a Trust instrument which is for the exclusive benefit of such Participants and their Beneficiaries and meets the requirements of Section 401(a) of the Code, and thereupon the Trust Assets, or any part thereof, together with any outstanding loans and accrued interest attributable thereto, shall be paid over, transferred or assigned to said successor Trustee or Trustees free from the Trust created hereunder; provided, however, that no part of the Trust Assets may be used to pay insurance policy premiums or to make contributions of the Company or of any participating Employer under any other plan maintained by the Company or any participating Employer for the benefit of its Employees.

N. Resignation or Removal of Trustee.

(1) Any Trustee may resign at any time upon thirty (30) days written notice to the Company. Any Trustee may be removed at any time by the Company upon thirty (30) days written notice to the Trustee. Upon the receipt of instructions or directions from the Company or the Committee with which a Trustee is unable or unwilling to comply, that Trustee may resign upon notice, in writing, to the Company or the Committee, given within a reasonable time, under the circumstances then prevailing, after the receipt of such instructions or directions, and notwithstanding any other provisions hereof; in that event, that Trustee shall have no liability to the Company, or any person interested herein for failure to comply with such instructions or directions. Upon resignation or removal of any Trustee, the Company shall appoint a successor Trustee (or Trustees). The successor Trustee shall have the same powers and duties as are conferred upon the Trustee hereunder, and the Trustee shall assign, transfer and pay over to such successor Trustee all the moneys, securities and other property then constituting the Trust Assets, together with such records or copies thereof as may be necessary to the successor Trustee.

(2) The Trustee shall not be required to make any transfer under this Paragraph N or the preceding Paragraph M to a successor Trustee or Trustees unless and until it has been indemnified to its satisfaction against any expenses and liabilities both with respect to such transfer and with respect to any of its acts as Trustee prior to such transfer (except such expenses or liabilities due to or arising from its fraud, dishonesty, negligence or misconduct).

O. Definition.

The definitions of certain words in the Plan shall apply to this Agreement wherever applicable. The singular or plural number shall each be deemed to include the other whenever the context so indicates.

P. Miscellaneous.

(1) So long as this Plan is in effect, all Employers shall file with the Internal Revenue Service and the Department of Labor, at the time and place required, the information required under ERISA and the Code. If this Trust and the Plan referred to herein, after initially qualifying as a tax exempt Trust under Section 401(a) of the Code shall thereafter cease to be a qualified Trust by reason of some act or omission on the part of the Company, the Company agrees to indemnify Trustee and hold Trustee harmless against any liability it may incur for Federal, Estate or other taxes as a result of payments made from the Trust to Beneficiaries of deceased Participants after it ceases to be a qualified trust.

(2) In the event any provisions of this Agreement shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions of this Agreement, but shall be fully severable and the Agreement shall be construed and enforced as if the illegal or invalid provision had never been inserted herein.

Q. Acceptance.

The Trustee hereby accepts this Trust and agrees to hold the Trust Assets existing on the date of this Agreement and all additions and accretions thereto, subject to all the terms and conditions of this Agreement, which shall be interpreted and construed in accordance with the Employee Retirement Income Security Act of 1974 and any other applicable laws and to the extent not superseded by Federal laws, in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the Company and the Trustee have caused this Agreement to be executed in duplicate this 27th day of June, 1994.

McGRATH RENTCORP

(SEAL)

By /s/ ROBERT P. MCGRATH

Robert P. McGrath, President

By /s/ DELIGHT SAXTON

Delight Saxton, Secretary

TRUSTEE

BANK OF CALIFORNIA

By /s/ JAMES A. COTTA

James A. Cotta, Vice President &
Trust Officer

TRUST AMENDMENT NUMBER 1

MCGRATH RENTCORP

EMPLOYEE STOCK OWNERSHIP TRUST AGREEMENT

McGrath RentCorp, pursuant to and in accordance with the provisions of Paragraph L of the McGrath RentCorp Employee Stock Ownership Trust Agreement, does hereby amend said Trust Agreement, as follows:

The Trust Agreement is hereby amended by removing Union Bank as Trustee and adding Delight Saxton and Thomas J. Sauer as Trustees.

This Amendment to said Trust Agreement shall be effective as of August 31, 2001.

MCGRATH RENTCORP

Date: July 31, 2001

By /s/ DENNIS C. KAKURES

Dennis C. Kakures, President

(SEAL)

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.

Grant Thornton LLP

San Francisco, California
March 24, 2003