

MCGRATH RENTCORP
Form DEF 14A
April 24, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- | | | | |
|-------------------------------------|---|--------------------------|--|
| <input type="checkbox"/> | Preliminary Proxy Statement | <input type="checkbox"/> | Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
| <input checked="" type="checkbox"/> | Definitive Proxy Statement | | |
| <input type="checkbox"/> | Definitive Additional Materials | | |
| <input type="checkbox"/> | Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12 | | |

McGrath RentCorp

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Edgar Filing: MCGRATH RENTCORP - Form DEF 14A

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

N/A

(2) Aggregate number of securities to which transaction applies:

N/A

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

N/A

(4) Proposed maximum aggregate value of transaction:

N/A

(5) Total fee paid:

N/A

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

N/A

(2) Form, Schedule or Registration Statement No.:

N/A

(3) Filing Party:

N/A

(4) Date Filed:

N/A

McGRATH RENTCORP

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held May 28, 2003

To the Shareholders of McGRATH RENTCORP:

NOTICE IS HEREBY GIVEN that the 2003 Annual Meeting of Shareholders (the Annual Meeting) of McGrath RentCorp, a California corporation (the Company), will be held at the Company s principal executive offices located at 5700 Las Positas Road, Livermore, California 94551, on Wednesday, May 28, 2003, at 2:00 p.m., local time, for the following purposes:

1. To elect seven (7) directors of the Company to serve until the 2004 annual meeting of shareholders or until their successors are elected and qualified;
2. To ratify the appointment of Grant Thornton LLP as the independent auditors for the Company for the year ending December 31, 2003; and
3. To transact such other business as may properly come before the Annual Meeting and any adjournment or postponement thereof.

The foregoing items of business are more fully described in the proxy statement which is attached and made a part hereof.

The Board of Directors of the Company has fixed the close of business on April 14, 2003 as the record date for determining the shareholders entitled to notice of and to vote at the Annual Meeting and any adjournment or postponement thereof.

All shareholders are cordially invited to attend the meeting in person. Whether or not you expect to attend the Annual Meeting in person, you are urged to mark, sign, date and return the enclosed proxy card as promptly as possible in the postage-prepaid envelope provided to ensure your representation and the presence of a quorum at the Annual Meeting. Should you receive more than one proxy because your shares are registered in different names and addresses, each proxy should be returned to ensure that all of your shares will be voted. If you send in your proxy card and then decide to attend the Annual Meeting to vote your shares in person, you may still do so. Your proxy is revocable in accordance with the procedures set forth in the proxy statement.

By Order of the Board of Directors,

Randle F. Rose

Secretary

Livermore, California

April 28, 2003

Mailed to Shareholders
on or about April 29, 2003

McGRATH RENTCORP

5700 Las Positas Road

Livermore, California 94551

PROXY STATEMENT

FOR 2003 ANNUAL MEETING OF SHAREHOLDERS

General Information

This proxy statement is furnished to the shareholders of McGrath RentCorp, a California corporation (the "Company"), in connection with the solicitation by the Board of Directors of the Company of proxies in the accompanying form for use in voting at the Annual Meeting of shareholders of the Company (the "Annual Meeting") to be held on Wednesday, May 28, 2003, at 2:00 p.m., local time, at the Company's principal executive offices located at 5700 Las Positas Road, Livermore, California 94551, and any adjournment or postponement thereof. The shares represented by the proxies received, properly marked, dated, executed and not revoked will be voted at the Annual Meeting.

Solicitation, Record Date and Voting Procedures

The solicitation of proxies will be conducted by mail and the Company will bear all related costs. These costs will include the expense of preparing and mailing proxy materials for the Annual Meeting and reimbursements paid to brokerage firms and others for their expenses incurred in forwarding solicitation material regarding the Annual Meeting to beneficial owners of the Company's common stock. The Company may conduct further solicitation personally, telephonically or by facsimile through our officers, directors and regular employees, none of whom will receive additional compensation for assisting with the solicitation.

The close of business on April 14, 2003 has been fixed as the record date (the "Record Date") for determining the holders of shares of common stock of the Company entitled to notice of and to vote at the Annual Meeting. As of the close of business on the Record Date, the Company had 12,036,130 shares of common stock outstanding and entitled to vote at the Annual Meeting. The presence at the Annual Meeting of a majority of these shares of common stock of the Company, either in person or by proxy, will constitute a quorum for the transaction of business at the Annual Meeting. An automated system administered by the Company's transfer agent will tabulate votes cast by proxy and Randle F. Rose, the Company's Secretary will act as inspector of elections to tabulate votes cast in person at the Annual Meeting.

Each outstanding share of common stock on the Record Date is entitled to one vote on each matter. However every shareholder voting for the election of directors may cumulate such shareholder's votes and give one candidate a number of votes equal to the number of directors to be elected (seven) multiplied by the number of shares held, or may distribute such shareholder's votes on the same principle among as many candidates as the shareholder may select. However, no shareholder shall be entitled to cumulate votes for any candidate unless the candidate's

Edgar Filing: MCGRATH RENTCORP - Form DEF 14A

name has been placed in nomination prior to the voting and the shareholder, or any other shareholder, has given notice at the Annual Meeting prior to the voting of the intention to cumulate the shareholder's votes. The proxy holders are given discretionary authority, under the terms of the proxy, to cumulate votes represented by shares for which they are named in the proxy. In electing directors, the seven candidates receiving the highest number of affirmative votes shall be elected.

Under the General Corporation Law of the State of California, an abstaining vote and a broker non-vote are counted as present and are, therefore, included for purposes of determining whether a quorum of shares is present at the Annual Meeting. Abstentions are not included in determining the number of shares voted on the proposals submitted to shareholders. A broker non-vote occurs when a nominee holding shares for a beneficial

owner does not vote on particular matter because the nominee does not have the discretionary voting power with respect to that matter and has not received instructions from the beneficial owner. Broker non-votes, and shares as to which proxy authority has been withheld with respect to any matter, are not deemed to be entitled to vote for purposes of determining whether shareholders' approval of that matter has been obtained.

With respect to proposal 1 of this proxy statement, directors are elected by a plurality of the votes of the shares of common stock represented and voted at the Annual Meeting, and abstentions and broker non-votes will have no effect on the outcome of the election of directors. With respect to proposal 2 of this proxy statement, the affirmative vote of a majority of the shares of common stock represented and voted at the Annual Meeting is required for ratification of the independent auditors. Abstentions and broker non-votes will have no effect on such proposal.

The Proxy

The persons named as proxyholders, Robert P. McGrath, the Company's Chairman of the Board of Directors, and Randle F. Rose, the Company's Secretary, were selected by the Company's Board of Directors.

All shares represented by each properly executed, unrevoked proxy received in time for the Annual Meeting will be voted in the manner specified therein. If no specification is made on the proxy as to any one or more of the proposals, the common stock of the Company represented by the proxy will be voted as to the proposal for which no specification is given as follows: FOR the election of the director nominees named in this proxy statement, FOR the ratification of the selection of Grant Thornton LLP, as the Company's independent auditors for the 2003 fiscal year and, with respect to any other matters that may come before the Annual Meeting, at the discretion of the proxyholders. The Company does not presently know of any other such business to be conducted at the Annual Meeting.

Revocability of Proxy

If the shares of common stock are held in your name, you may revoke your proxy given pursuant to this solicitation at any time before the proxy card is voted by: (i) delivering to the Company (to the attention of Randle F. Rose, the Company's Secretary), at the address of our principal executive offices, a written notice of revocation or a duly executed proxy bearing a later date, or (ii) attending the Annual Meeting and voting in person. If your shares are held in street name, you should follow the directions provided by your broker regarding how to revoke your proxy. Your attendance at the Annual Meeting after having executed and delivered a valid proxy card will not in and of itself constitute a revocation of your proxy. You will be required to give oral notice of your intention to vote in person to the inspector of elections at the Annual Meeting.

Deadline for Receipt of Shareholder Proposals

Requirements for Shareholder Proposals to Be Brought Before an Annual Meeting. To be considered for presentation to the annual meeting of the Company's shareholders to be held in 2004, a shareholder proposal must be received by Randle F. Rose, Secretary, McGrath RentCorp, 5700 Las Positas Road, Livermore, California 94551, no later than December 31, 2003.

Requirements for Shareholder Proposals to Be Considered for Inclusion in the Company's Proxy Materials. Shareholder proposals submitted pursuant to Rule 14a-8 under the Exchange Act and intended to be presented at the annual meeting of the Company's shareholders to be held in 2004 must be received by the Company no later than December 31, 2003 in order to be considered for inclusion in the Company's proxy materials for that meeting.

Discretionary Authority. The proxies to be solicited by our Board of Directors for the 2004 annual meeting will confer discretionary authority on the proxyholders to vote on any shareholder proposal presented at such annual meeting if we fail to receive notice of such proposal by March 15, 2004.

PROPOSAL NO. 1**ELECTION OF DIRECTORS**

The Company's bylaws authorize the number of directors to be not less than four (4) and not more than seven (7). The number of directors on the Board of Directors is currently fixed at seven (7). Each director serves a one-year term. The Board of Directors is currently composed of the following seven (7) directors whose terms will expire upon the election and qualification of directors at the Annual Meeting of shareholders to be held on May 28, 2003: William J. Dawson, Robert C. Hood, Joan M. McGrath, Robert P. McGrath, Delight Saxton, Dennis P. Stradford and Ronald H. Zech. At each annual meeting of shareholders, directors will be elected for full terms of one year to succeed those directors whose terms are expiring.

At the Annual Meeting, the shareholders will elect seven (7) directors. Messrs. Dawson, Hood, Kakures, McGrath, Stradford and Zech and Ms. McGrath have been nominated to serve a one-year term, until the annual meeting of shareholders to be held in 2004, or until their successors are elected or appointed and qualified, or until their earlier resignation or removal. The Board of Directors has no reason to believe that any of Messrs. Dawson, Hood, Kakures, McGrath, Stradford and Zech and Ms. McGrath will be unable or unwilling to serve as a nominee or as a director if elected.

Nominees

The names of the nominees and certain information about them are set forth below.

<u>Name of Nominee</u>	<u>Age</u>	<u>Principal Occupation</u>	<u>Director Since</u>
William J. Dawson	48	Chief Financial Officer of Dynavax Technologies Corporation	1998
Robert C. Hood	62	Former Executive Vice President and Chief Financial Officer of Excite, Inc.	1999
Dennis C. Kakures	46	Chief Executive Officer and President of the Company	N/A
Joan M. McGrath	66	Businesswoman	1982
Robert P. McGrath	69	Chairman of the Board of the Company	1979
Dennis P. Stradford	56	Former Chief Executive Officer of CascadeWorks, Inc.	2002
Ronald H. Zech	59	Chairman of the Board, President and Chief Executive Officer of GATX Corporation	1989

William J. Dawson was elected a director of the Company in 1998, and he serves on its Audit and Executive Compensation Committees. Mr. Dawson joined Dynavax Technologies Corporation, a privately held biopharmaceutical company, in August 2002 as Vice President, Finance & Operations, and Chief Financial Officer. From 1998 through 2001, he was Corporate Senior Vice President, Business Development, for McKesson Corporation, where he was responsible for mergers and acquisitions and venture capital investing for the San Francisco-based healthcare services company. He was also acting Chief Financial Officer of iMcKesson, a wholly-owned e-health subsidiary of McKesson. Mr. Dawson earned his A.B. in mechanical engineering from Stanford University and an MBA from Harvard Business School.

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

Edgar Filing: MCGRATH RENTCORP - Form DEF 14A

Hood received a B.A. in Economics from Bates College and an M.B.A. from the Amos Tuck Graduate School of Business at Dartmouth College.

Dennis C. Kakures has been the President of the Company since 1995 and became the Chief Executive Officer of the Company in 2003. He joined the Company in 1982 as Sales and Operations Manager of the

Company's Northern California office and has also served as a Vice President of the Company in 1987, Chief Operating Officer from 1989 to 2003 and Executive Vice President from 1993 to 1995. Mr. Kakures received a B.S. in Marketing from California State University at Hayward.

Joan M. McGrath joined the Company in 1980 and has been a director since 1982. Ms. McGrath served as a Vice President of the Company from 1982 through 1994, at which time she resigned from that position. She continues to be an employee of the Company with responsibilities in training sales, supervisory and management personnel and general management. Ms. McGrath received a B.A. in English Literature from Marymount College and an M.A. in Theology from University of San Francisco, and completed her doctoral studies in philosophy at Fordham University.

Robert P. McGrath is the founder of the Company. He has been a director since the Company's formation in 1979 and our Chairman of the Board since 1988. From 1979, he also served as the Company's Chief Executive Officer through 2003, President through 1994 and Chief Financial Officer through 1993. Mr. McGrath received a B.S. in Electrical Engineering from the University of Notre Dame.

Dennis P. Stradford was elected a director in 2002 and serves on its Audit and Executive Compensation Committees. Mr. Stradford is the former Chief Executive Officer of CascadeWorks, Inc., a provider of e-procurement software to Fortune 1000 companies. From 1998 to 2000, he was Chief Executive Officer of SupplyBase, Inc. a provider of web-based supply-chain management software and services. From 1985 to 1997, Mr. Stradford was with Flextronics International, Ltd., a publicly traded company, and served as its Senior Vice President, Sales and Marketing. He previously held executive and sales positions with Zehntel and IBM. Mr. Stradford holds a B.A. from San Jose State University and an M.A., M. Div. from St. Patricks Theolgaite.

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

Required Vote

The nominees will be elected by a plurality of the votes cast. Abstentions and broker non-votes are not counted toward the nominees' total.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE ELECTION OF THE NOMINEES NAMED ABOVE.

EXECUTIVE OFFICERS AND DIRECTORS

The following table sets forth certain information with respect to the executive officers and directors of the Company as of April 14, 2003:

<u>Name</u>	<u>Age</u>	<u>Position Held with the Company</u>
Robert P. McGrath	69	Chairman of the Board
Dennis C. Kakures	46	Chief Executive Officer and President
Thomas J. Sauer	46	Vice President and Chief Financial Officer
Joseph F. Hanna	40	Vice President, Operations
Randle F. Rose	45	Vice President of Administration and Secretary
William J. Dawson (1)(2)	48	Director
Robert C. Hood (1)(2)	62	Director
Joan M. McGrath	66	Director
Delight Saxton	57	Director
Dennis P. Stradford (1)(2)	56	Director
Ronald H. Zech (1)(2)	59	Director

(1) Member of the Executive Compensation Committee

(2) Member of the Audit Committee

Robert P. McGrath, Dennis C. Kakures, Robert C. Hood, Joan M. McGrath, Dennis P. Stradford and Ronald H. Zech are nominees to the Board of Directors and their descriptions appear under *Proposal No. 1: Election of Directors Nominees*.

Thomas J. Sauer joined the Company in 1983 as its Accounting Manager and served as its Controller from 1987 to March 1999. He also became Treasurer in 1989, a Vice President in 1995 and Chief Financial Officer in 1999. Mr. Sauer is responsible for accounting, financial reporting, corporate taxes and the Company's relationships with its bankers and auditors. Mr. Sauer received a B.S. in Business from the University of California and an M.B.A. from Golden Gate University.

Joseph F. Hanna was appointed Vice President, Operations of the Company in January 2003. Mr. Hanna has extensive sales and operations experience, including 12 years at SMC Corporation of America (a subsidiary of SMC Corporation, Tokyo, Japan) where he served most recently as Director, Sales and Operations, Western United States. His prior experience also includes serving as a captain in the United States Army. Mr. Hanna holds a B.S. in Electrical Engineering from the United States Military Academy, West Point, New York.

Randle F. Rose joined the Company in 1997 as its Vice President of Administration and was elected Secretary of the Company in 1999. Mr. Rose is responsible for the administration of human resources, risk management, legal, information technology, real estate and facility development. Mr. Rose received a B.S. in Business Finance from California State University at San Jose.

Delight Saxton has been with the Company since its inception in 1979 and a director since 1982. She served as Secretary of the Company from 1982 to 1999, Treasurer from 1982 to 1989, Vice President of Administration from 1989 to 1997, Chief Financial Officer from 1993 to 1999 and a Senior Vice President from 1997 to 2002. Ms. Saxton is now retired.

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

Meetings and Committees of the Board of Directors

During 2002, the Board of Directors met eleven times. No director attended fewer than 75% of the aggregate of either (i) the total number of Board meetings held during the period for which he or she was a director, or (ii) the total number of committee meetings of the Board held in 2002 on which he served. The committees of the Board of Directors currently include the Executive Compensation Committee and the Audit Committee.

The Executive Compensation Committee held four meetings in 2002. The Executive Compensation Committee currently consists of Messrs. Dawson, Hood, Stradford and Zech. Mr. Stradford was appointed to serve as a member of the Executive Compensation Committee in November 2002, and Mr. McGrath resigned from the Executive Compensation Committee in 2003. The functions of the Executive Compensation Committee are to establish and apply the Company's compensation policies with respect to the Company's executive officers.

The Audit Committee held six meetings in 2002. The Audit Committee currently consists of Messrs. Dawson, Hood, Stradford and Zech. Mr. Stradford was appointed to serve as a member of the Audit Committee in November 2002. The Audit Committee recommends the engagement of the Company's independent auditors. In addition, the Audit Committee is primarily responsible for approving the services performed by the Company's independent auditors and for reviewing and evaluating the Company's accounting principles and its system of internal accounting controls. The Board of Directors adopted and approved a charter for the Audit Committee in March 2001, a copy of which is attached as an exhibit to the Company's 2001 proxy statement. The Board of Directors has determined that all members of the Audit Committee are independent as that term is defined in Rule 4200 of the listing standards of the National Association of Securities Dealers.

The Board of Directors does not have a nominating committee.

Director Compensation

Each director who is not also an officer or employee of the Company was compensated for his services as a director at the rate of \$16,000 per annum plus an additional fee of \$750 per meeting for attendance at the meetings of the Board of Directors or one of its Committees (in the event a Committee meeting is held in conjunction with a Board meeting, only one \$750 fee is paid to the director). Messrs. Dawson, Hood, Stradford and Zech received \$26,500, \$26,500, \$2,460 and \$26,500, respectively, their services as a director of the Company during 2002. All directors, including those who are officers or employees of the Company, are reimbursed for expenses incurred in connection with attending Board or Committee meetings.

In addition to cash compensation, the four outside directors of the Company during 2002, Messrs. Dawson, Hood, Stradford and Zech, received a non-qualified stock option under the Company's 1998 Stock Option Plan for the purchase of 4,000 shares, 4,000 shares, 10,000 shares and 4,000 shares, respectively, of the Company's common stock at an exercise price of \$22.52 per share. See *Executive Compensation and Other Information Summary Compensation Table 1998 Stock Option Plan* below.

EXECUTIVE COMPENSATION AND OTHER INFORMATION
Summary Compensation Table

The following table provides summary information concerning the compensation earned, by our Chief Executive Officer and each of our four most highly compensated executive officers whose total salary, bonus and other compensation exceeded \$100,000 during the fiscal years ended December 31, 2000, 2001 and 2002. In accordance with the rules of the SEC, the compensation described below does not include perquisites and other personal benefits received by the executive officers named in the table below which do not exceed the lesser of \$50,000 or 10% of the total salary and bonus reported for these officers. The executive officers listed below are referred to as the Named Executive Officers.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation		All Other Compensation(3)
		Salary	Bonus	Awards(1)	Payout(2)	
Robert P. McGrath(4)	2002	\$ 390,308	\$	\$	\$	\$ 6,467
Chairman and	2001	430,000	42,116			5,469
Chief Executive Officer	2000	424,000	295,663			12,437
Dennis C. Kakures(5)	2002	290,462			186,603	6,467
President and Chief	2001	320,000	31,197	30,466	268,250	5,469
Operating Officer	2000	280,000	192,442	11,606	299,569	12,437
Thomas J. Sauer	2002	181,538	30,000		121,992	6,467
Vice President and	2001	200,000	15,631	20,111	170,308	5,469
Chief Financial Officer	2000	185,000	101,973	7,576	191,912	12,437
Scott A. Alexander(6)	2002	131,473	6,250			6,467
Vice President	2001	157,000	85,778			5,469
	2000	145,000	51,500			12,437
Randle F. Rose	2002	110,337	25,875			4,591
Vice President of	2001	112,500	28,047			4,601
Administration, Secretary	2000	105,000	26,094			9,145

- (1) Upon an award of stock bonus shares under the Company's Long-Term Stock Bonus Plan, 20% of such shares are vested in the participant and the remaining 80% vest over the next four years contingent upon the participant remaining in the employ of the Company. See *Long-Term Stock Bonus Plan* below. The figures shown in the column designated Awards are the values of the vested 20% shares of the Company's Common Stock earned by the executive officers under the Plan, calculated based on the market value of the Common Stock as of the end of the respective years. Dividends are paid to the officer with respect to shares earned by him, whether or not vested. As the unvested shares subsequently vest, their values are shown in the column designated Payout.
- (2) The figures shown in the column designated Payout are the values of the shares of the Company's Common Stock previously earned by the executive officers under the Company's Long-Term Stock Bonus Plan in a prior year which vested during the year shown. The values are calculated based on the market value of the Common Stock as of the end of the year in which it was originally earned.
- (3) The figures shown in the column designated All Other Compensation represent the executive officer's share of the allocation of the Company's contribution to the Company's Employee Stock Ownership Plan for that year, and his share of any re-allocations of forfeited benefits during that year (see *Employee Stock Ownership Plan* below).
- (4) Mr. McGrath served as Chief Executive Officer until 2003.
- (5) Mr. Kakures served as Chief Operating Officer until 2003 and was appointed Chief Executive Officer in 2003.

- (6) Mr. Alexander resigned his position as a Vice President of the Company in July 2002, but remains employed by the Company as its Director of Legislative and Regulatory Affairs.

In 2002 in connection with certain company-wide expense reduction measures, each of Messrs. McGrath, Kakures and Sauer voluntarily reduced their respective annual salaries by 10% for the period between April 1, 2002 through December 31, 2002.

Employee Stock Ownership Plan

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

Employees, who are 21 years or older, are entitled to participate in the ESOP when they have completed one year of service to the Company by June 30 of any year. As of December 31, 2002, 267 employees of the Company were participants in the ESOP. Allocations to each eligible participant's trust account are made each year from Company contributions, trust income or loss and re-allocations of forfeited ESOP benefits if the participant remains employed throughout the year and has worked a minimum number of hours or his employment has terminated due to death or retirement (as that term is defined in the ESOP) during that year. Allocations are made based upon each participant's compensation from the Company and time employed by the Company. As provided by law, a participant's interest in the ESOP becomes 20% vested after three years of service and will continue to vest at 20% per year thereafter until it is fully vested after the seventh year or upon death or total disability. The vesting schedule will be accelerated and the Company's contributions and ESOP allocations will be modified if the ESOP becomes a top heavy plan under federal tax laws.

In general, Company contributions are immediately tax deductible by the Company, but participants do not recognize income for tax purposes until distributions are made to them. The Company's Board of Directors determines the amount of Company contributions to the ESOP in cash, Company stock or other property each year with consideration for federal tax laws. The Company made a \$400,000 cash contribution to the ESOP for the 2002 plan year, and the Company had made an aggregate of \$2,700,000 cash contributions for the four years prior to that. Employees may not make contributions to the ESOP. Contributions in cash are used to purchase Company stock. However, other investments may be made and loans may be incurred by the ESOP for the purchase of Company stock.

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

1987 Incentive Stock Option Plan

The Company has a 1987 Incentive Stock Option Plan (the 1987 Plan) under which options have been granted to key employees of the Company for the purchase of its Common Stock. Options granted under the 1987 Plan are intended to qualify as incentive stock options as that term is defined in Section 422 of the Internal Revenue Code of 1986, as amended. The 1987 Plan authorized the issuance of an aggregate of 2,000,000 shares of the Company's Common Stock under options. As of April 14, 2003, options for an aggregate of 852,000 shares had been granted to 28 key employees at exercise prices ranging between \$3.06 and \$10.75 per

share; and of such options granted, options have been exercised for the purchase of 727,785 shares, options for 78,067 shares have been terminated, and options for 46,148 shares remain outstanding. The 1987 Plan is now terminated by its terms, and no further options will be granted under it; however, the options held by key employees for 46,148 shares still outstanding remain exercisable in accordance with the terms of those options. None of the Named Executive Officers were granted, exercised or held an option during 2002 under the 1987 Plan.

1998 Stock Option Plan

The Company has a 1998 Stock Option Plan (the 1998 Plan) that authorizes the issuance of an aggregate of 2,000,000 shares of the Company's Common Stock under options to officers, key employees, directors and other persons who provide valuable services to the Company or its subsidiaries. Options granted under the 1998 Plan may be either incentive stock options as defined in Section 422 of the Internal Revenue Code of 1986, as amended, or options which are not incentive stock options (non-qualified options). As of April 14, 2003, options for an aggregate of 799,000 shares have been granted to 51 key employees at exercise prices ranging between \$15.625 and \$25.10 per share; and of such options granted, options have been exercised for the purchase of 142,925 shares, options for 118,975 shares have been terminated, and options for 537,100 shares remain outstanding. In addition to these options to key employees, options for an aggregate of 94,000 shares have been granted to outside directors of the Company at exercise prices ranging between \$15.938 and \$25.55 per share; and of such options granted, no options have been exercised, options for 10,000 shares have been terminated, and options for 84,000 shares remain outstanding. A total of 1,235,975 shares remain available in the 1998 Plan for future option grants. In the event there is a change in control of the Company and the option holder is thereafter terminated within two years, the exercise rights under his or her option shall accelerate and become fully vested. With the exception of the information set forth below, none of the Named Executive Officers exercised or held an option during 2002 under the 1998 Plan.

Name

Shares Acquired on Exercise

