



2002 ANNUAL REPORT

"MAC-GRAY'S REPUTATION IS WELL DESERVED. THEY REMAIN A LEADER IN THEIR INDUSTRY BY STAYING AT THE FOREFRONT OF NEW ADVANCES LIKE CARD SYSTEMS AND HIGH-EFFICIENCY MACHINES. THEY DEMONSTRATE A COMMITMENT TO . . .

FINANCIAL HIGHLIGHTS

SELECTED OPERATING DATA

YEARS ENDED DECEMBER 31,
2002 2001 2000

Revenue			
Laundry Route	\$ 101,510	\$ 102,114	\$ 99,419
Laundry Equipment Sales	17,014	15,929	16,280
Laundry Rental	2,200	2,045	1,868
Reprographic Route	5,915	6,127	6,855
Total Laundry & Reprographics	\$ 126,639	\$ 162,215	\$ 124,422
Microfridge® Equipment Sales	\$ 22,227	\$ 23,226	\$ 25,802
Microfridge® Rental	1,502	2,628	4,044
Total Microfridge®	\$ 29,846	\$ 25,854	\$ 29,846
Total Revenue	\$ 154,268	\$ 152,069	\$ 154,268
Cash Flow from Operations	\$ 26,835	\$ 18,473	\$ 23,177

... UNDERSTANDING AND MEETING THE PRIORITIES OF THEIR CUSTOMERS, AND UNITED DOMINION IS NO EXCEPTION. WE LOOK FORWARD TO CONTINUING WORKING WITH MAC-GRAY IN THE FUTURE AND CONTINUING TO BUILD UPON OUR PARTNERSHIP."

— JUSTIN VAUGHN, UNITED DOMINION REALTY TRUST



TO ALL OUR STAKEHOLDERS:

At a time of increasing economic uncertainty, shaky consumer confidence and continuing erosion of the investment climate, our Company ended the year in stronger financial health than when it began. The consistent performance of our laundry route business, which derives from our demonstrated ability to renew route contracts year after year, continues to help us counter the negative effects of national economic difficulties. It also provides the strongest argument for a favorable long-term outlook for Mac-Gray. While our sales businesses were hurt by the combination of a tight credit environment and nervous buyers, the route businesses provided good stability to the corporation. While unemployment and other market factors have triggered higher apartment vacancy rates in most metropolitan markets, here too our business model, along with our geographic diversity and smart card technology, provided some protection.



From left: Mike Shea, CFO; Stewart MacDonald, Chairman and CEO; Neil MacLellan, COO

Our strategy has been to continue pursuing measured, disciplined revenue growth. This strategy is designed to augment the core profitability of our key businesses, enhance our cash flow generation, and reinforce our reputation for reliability and service excellence. We also focused on controlling costs across all our business lines with particular emphasis on improving margins in our laundry route business, the source of more than two-thirds of Mac-Gray's revenues. This has meant continuing to be increasingly selective in the new business we write, the leases we renew, and in raising the bar on the level of profitability we are willing to accept.

In the face of revenue pressure, we placed an emphasis on improving gross margins as well as on managing our costs and our balance sheet. As a result, Mac-Gray succeeded in generating operating cash flow of \$26.8 million, the highest level in the Company's history. Net income in 2002 was \$2.9 million, or \$0.23 per diluted share, excluding goodwill amortization in accordance with FAS 142 and including a goodwill impairment charge, compared with \$2.5 million, or \$0.20 per diluted share, in 2001. Excluding goodwill amortization, earnings for 2001 would have been \$4.4 million, or \$0.35 per diluted share.

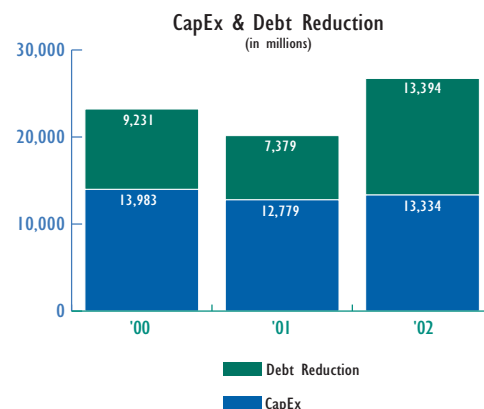
In a year that required considerable corporate stamina, Mac-Gray's top-line results are worth noting, in that some of our larger accomplishments were overshadowed by the negative performance of our non-laundry lines of business. While, the laundry divisions held their own with essentially flat revenue year-over-year, posting a modest increase of \$685,000, or approximately 1%, Mac-Gray's total revenue for the year ended December 31, 2002 decreased by \$1.7 million, or 1%, to \$150.4 million. This decrease was primarily attributable to disproportionate weakness in two sectors of the MicroFridge division and our intentional paring back of the reprographics business. While MicroFridge accounted for only 16% of Mac-Gray's revenue, that division's year-over-year revenue dropped \$2.2 million, or 8%, more than offsetting the laundry divisions' gain. Reprographic revenue was off \$212,000, or 3%.

We were disciplined in deploying our cash flow. We invested \$13.3 million in capital expenditures, reduced funded debt by \$13.4 million to the lowest level in more than four years and, at year end, initiated a \$2 million stock repurchase program. These actions should help to secure for Mac-Gray a position of strength from which to realize opportunities for growth, including potential acquisitions in our core business.

Laundry Divisions

Our total laundry revenue for 2002 consisted of mixed results. Laundry route and rental revenue, which is mostly contractual, decreased by \$449,000, or less than 1%. This was offset by an increase of \$1.1 million, or 7%, in laundry equipment sales. This slight shift in the mix of our business exerted upward pressure on expenses because the delivery and installation costs for equipment sales are higher than operating costs in the route business.

The primary contributor to the slight decrease in laundry route revenue was an increase in apartment vacancy rates in several of the Company's metropolitan markets, most notably in some of the southern states we serve. Many apartment owners report occupancy rates of 87%-92%, whereas two years ago they were 94%-99%. Fortunately, occupancy rates in many of our northern



“WE WANT OUR RESIDENT HALLS TO FEEL LIKE HOME, NOT JUST A PLACE STUDENTS HAVE TO STAY WHEN THEY ARE AT SCHOOL. MAC-GRAY'S PROGRAMS HELP US TO PROVIDE THAT HOME-LIKE ATMOSPHERE. WE HAVE A GREAT PARTNERSHIP WITH MAC-GRAY.”

CONNIE CARSON, DIRECTOR OF RESIDENCE LIFE, WAKE FOREST UNIVERSITY

markets have continued to be stronger. To further diversify our geographic risk, we have strengthened our marketing efforts to national accounts, several of which are indicating that having a quality service provider is becoming more important to them than it has been in recent years. For example, in October 2002 Mac-Gray signed a 10-year contract with one of the nation's largest real estate investment trusts (REITs) and the nation's largest owner and manager of multi-family housing to operate the laundry facilities for more than 4,000 apartments in greater New England. This transaction is significant for two reasons. First, was the decision to outsource the management of its laundry facilities in a newly acquired portfolio, where they had previously been managed in-house. Second, the REIT subsequently contracted to convert virtually all of the 900 washers and dryers that were still coin-operated to card-operation. In both cases the decisions by the property owner were partially motivated by the opportunity for greater revenues.

This is a familiar pattern of success for our Company. Within our existing customer base, we continue to be successful in converting coin-operated accounts to higher card-based revenues. Our card-operated equipment now produces more than 30% of our laundry route revenue. The card-operated machines provide us with a pricing advantage in that we are able to increase vend rates in more regular, flexible, and reasonable increments than in our coin-operated machines. Therefore, both Mac-Gray and the property owners are able to generate greater incremental revenues from the installed base of machines. In 2002, this ability to increase vend price rates helped offset the decrease in apartment occupancy rates.

The profitability of a laundry route account is driven by three variables: the revenue produced by the account; the derived rent and the term of the contract; and the capital investment required. Route rent is negotiated for each contract, generally as a derivative of revenues. During 2002, we were successful in renegotiating long-term contracts covering 8% of our total machine base. With improved rent formulas, our portion of the income from the laundry route division rose slightly, despite slightly lower collected revenues. In 2003, we expect to continue the initiatives that preserve the stability and consistency of our laundry business and also enhance its profitability.

MicroFridge®

For the year as a whole, we were disappointed by the performance of our MicroFridge® division, where revenue fell 8% from 2001, with the academic and hotel segments off 19% and 17%, respectively. MicroFridge is experiencing the continued unwillingness of colleges to make capital commitments, in many cases because of the decline in endowment contributions to operating budgets. The academic market is very seasonal in nature, meaning that if decisions are postponed, they are often deferred to the next budget year. The hotel and motel sector is suffering from the inability or unwillingness to finance expansion and equipment purchases in the face of declines in occupancy rates, which have not recovered to the levels they enjoyed before September 11, 2001.

A bright spot in this division was the government segment, where we supply MicroFridge units for military housing. Government sales exceeded 2001 revenue by 20%. However, given our military involvement abroad, it is currently very difficult to predict the level and timing of spending on domestic military housing by the Department of Defense in 2003.

We ended the year encouraged by the strength the MicroFridge division demonstrated in the fourth quarter. Revenue was up 7%, with every segment showing increases over the fourth quarter of 2001. Contributing to our positive outlook is the fact that in August 2002, we hired Philip Emma, a senior executive with more than 20 years of general management experience, as general manager of the MicroFridge division. With his many years of experience in highly competitive consumer goods organizations such as PepsiCo and Coca-Cola Enterprises, we are optimistic about the prospects for this business.



Copico

We continue to restructure the contracts and scale back the unprofitable business of our smallest division, Copico. In 2002, we proactively terminated approximately 20% of that division's accounts, due to unacceptable levels of profitability. Revenue also declined because of the reduced usage of machines in libraries and other facilities where they compete with online information resources and free laser printers. While our initiative to convert variable-based rent structures to flat-rate contracts produced positive results at several schools, our outlook for this business continues to be guarded. In 2003, we expect to continue shedding or renegotiating unprofitable contracts, and preventing this division from using more cash than it generates, something we achieved in 2002.

Corporate

One of our guiding principles is to inspire confidence in our investors and customers to partner with Mac-Gray. At Mac-Gray, this starts with our board of directors. Other than me, all of our directors are independent, outside directors. The Audit Committee and the Compensation Committee comprise only independent directors, and all three members of the Audit Committee are CPA's. We pride ourselves on the board's conservative approach to all business matters and its high ethical standards. In February, the Board formed a Nominating and Governance Committee, whose members are all independent. Additionally, the Audit Committee has recently hired Ernst & Young to augment our internal audit function. We have recently published our Code of Ethics on the corporate Web site. I encourage investors to visit our site at www.macgray.com to gain an appreciation of our value system.

To support the mutual interests of the Company and our shareholders, in the fourth quarter of 2002 Mac-Gray's board of directors authorized, a one-year share repurchase program. The Company can spend up to \$2 million buying back its common stock, either in the open market or through privately negotiated transactions.

Given the current environment, we consider our success in 2002 to be an affirmation of our business model. It is also indicative of the culture of our Company and the commitment of our employees. With nearly eight decades of experience, Mac-Gray has demonstrated its resilience and ability to more than hold its own through difficult times. We have taken constructive actions in the past year to lessen the impact of the soft multi-housing climate by adding more accounts, emphasizing customer service, improving our margins, converting existing accounts from coin-operation to card, selectively increasing vend rates, and strengthening the balance sheet. In 2003, we expect to continue growing our business in a measured, disciplined fashion, even as we take a more active approach to making acquisitions in the core laundry business.

On behalf of all members of our superb team, I offer my sincere thanks for your loyalty and support.

Stewart Gray MacDonald, Jr.
Cambridge, Massachusetts
April, 2003

TECHNOLOGY

"MAC-GRAY'S SMART CARD SYSTEM IS AN AMAZING ADVANCE OVER COIN PAYMENT. NOT ONLY IS IT MORE CONVENIENT FOR MY CUSTOMERS, IT HAS THE ABILITY TO HELP ME GENERATE MORE REVENUE."

TYLER GROSS, RAINWATER CORPORATION

OUR GOALS: CONVENIENCE AND ENERGY CONSERVATION



SMART CARD An everyday frustration of the people who use vended laundry equipment is having enough coins on hand. The microchip in Mac-Gray's smart cards solves this problem because it allows our customers to store value that they can purchase with \$5, \$10 and \$20 bills. In providing this service, Mac-Gray is able to generate more revenue for the company and its clients by making a necessary task more convenient, as well as by being able to implement smaller, scheduled vend increases over the term of the contract. In addition, the expense of servicing coin-jams is eliminated and problems resulting from oversize wash loads are reduced.



SAFE PLUG' In a MicroFridge® combination appliance there is a patented circuit that causes the refrigerator to be temporarily shut off while the microwave is being operated. This unique feature has important benefits for our customers and is a meaningful differentiator from our competition. First, it prevents electrical circuit overloads because it keeps the electrical draw below 10 amps. Second, it increases the operational efficiency of the unit, conserving electrical consumption and expense. Third, it conserves wall outlets because only one plug is required to run both appliances, which is very important in the environments where the product is used.



HIGH EFFICIENCY WASHERS For almost twenty years, Mac-Gray has been at the forefront of the laundry industry in converting to washing machines with horizontal axis technology. This type of machine has a significant advantage over traditional top-loading washers with its ability to conserve water and energy. The Maytag horizontal axis washers used or sold by Mac-Gray have a higher Energy Star' rating than any other product on the market. This month Maytag was awarded the 2003 ENERGY STAR Partner of the Year designation from the U.S. Environmental Protection Association (EPA) and the Department of Energy (DOE.) Maytag's horizontal axis washers use only 50% of the water required for a traditional top-loading washer. The washers purchased by Mac-Gray over the past five years are estimated to have saved more than 250 million gallons of water since they were put into operation.



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EXECUTIVE OFFICERS

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Neil F. MacLellan, III
Executive Vice President and
Chief Operating Officer

Michael J. Shea
Executive Vice President,
Chief Financial Officer,
Treasurer, and Secretary

STOCK LISTING

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Trading Symbol: TUC

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TRANSFER AGENT AND REGISTRAR

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Shareholder Inquiries: 1-800-937-5449

FORM 10-K

The Form 10-K for the Company's year ended December 31, 2002, is not accompanied by the exhibits, which were filed with the Securities and Exchange Commission. The Company will furnish any such exhibits to those shareholders who request the same upon payment to the Company of its reasonable expenses in furnishing such exhibits. Requests, which should be made in writing, should be made to:

Mac-Gray Corporation
Attention: Chief Financial Officer
22 Water Street
Cambridge, MA 02141

This Annual Report to Shareholders, including the letter to the Company's shareholders, contains statements which are not historical facts and are considered forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements contain projections of the Company's future results of operations or financial position or state other forward-looking information. In some cases you can identify these statements by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "should," "will" and "would" or similar words. You should not rely on forward-looking statements, because they involve known and unknown risks, uncertainties and other factors, some of which are beyond the Company's control. These risks, uncertainties and other factors may cause the Company's actual results, performance or achievements to differ materially from the anticipated future results, performance or achievements expressed or implied by the forward-looking statements. Some of the factors that might cause these differences include, but are not limited to, the Company's ability to renew laundry leases, multi-housing vacancy rates, the Company's reliance on certain suppliers, the Company's ability to generate sufficient cash flow to fund capital expenditures, and other risks and uncertainties set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2002 under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Factors" and in other reports subsequently filed with the Securities and Exchange Commission.



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