UNITED RENTALS INC /DE
Form 10-Q
October 21, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-14387
Commission File Number 1-13663

United Rentals, Inc.
United Rentals (North America), Inc.
(Exact Names of Registrants as Specified in Their Charters)

Delaware	06-1522496
Delaware	86-0933835
(States of Incorporation)	(I.R.S. Employer Identification Nos.)
100 First Stamford Place, Suite 700 Stamford, Connecticut	06902
(Address of Principal Executive Offices)	(Zip Code)

Registrants’ Telephone Number, Including Area Code: (203) 622-3131
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. x Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	x	Accelerated Filer	o
Non-Accelerated Filer	o	Smaller Reporting Company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No
As of October 19, 2015, there were 92,828,361 shares of United Rentals, Inc. common stock, $0.01 par value, outstanding. There is no market for the common stock of United Rentals (North America), Inc., all outstanding shares

of which are owned by United Rentals, Inc.

This combined Form 10-Q is separately filed by (i) United Rentals, Inc. and (ii) United Rentals (North America), Inc. (which is a wholly owned subsidiary of United Rentals, Inc.). United Rentals (North America), Inc. meets the conditions set forth in General Instruction (H)(1)(a) and (b) of Form 10-Q and is therefore filing this report with the reduced disclosure format permitted by such instruction.

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UNITED RENTALS, INC.
UNITED RENTALS (NORTH AMERICA), INC.
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015
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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. Such statements can be identified by the use of forward-looking terminology such as “believe,” “expect,” “may,” “will,” “should,” “seek,” “on-track,” “plan,” “project,” “fore or “anticipate,” or the negative thereof or comparable terminology, or by discussions of strategy or outlook. You are cautioned that our business and operations are subject to a variety of risks and uncertainties, many of which are beyond our control, and, consequently, our actual results may differ materially from those projected.

Factors that could cause actual results to differ materially from those projected include, but are not limited to, the following:

- the possibility that RSC Holdings Inc. ("RSC"), National Pump[1] or other companies that we have acquired or may acquire, in our specialty business or otherwise, could have undiscovered liabilities or involve other unexpected costs, may strain our management capabilities or may be difficult to integrate;
- a change in the pace of the recovery in our end markets; our business is cyclical and highly sensitive to North American construction and industrial activities as well as the energy sector, in general; if the pace of the recovery slows or construction activity declines, our revenues and, because many of our costs are fixed, our profitability may be adversely affected;
- our significant indebtedness (which totaled $8.5 billion at September 30, 2015) requires us to use a substantial portion of our cash flow for debt service and can constrain our flexibility in responding to unanticipated or adverse business conditions;
- inability to refinance our indebtedness at terms that are favorable to us, or at all;
- incurrence of additional debt, which could exacerbate the risks associated with our current level of indebtedness;
- noncompliance with financial or other covenants in our debt agreements, which could result in our lenders terminating our credit facilities and requiring us to repay outstanding borrowings;
- restrictive covenants and amount of borrowings permitted in our debt instruments, which can limit our financial and operational flexibility;
- inability to benefit from government spending, including spending associated with infrastructure projects;
- fluctuations in the price of our common stock and inability to complete stock repurchases in the time frame and/or on the terms anticipated;
- rates we charge and time utilization we achieve being less than anticipated;
- inability to manage credit risk adequately or to collect on contracts with a large number of customers;
- inability to access the capital that our businesses or growth plans may require;
- incurrence of impairment charges;
- the fact that our holding company structure requires us to depend in part on distributions from subsidiaries and such distributions could be limited by contractual or legal restrictions;
- increases in our loss reserves to address business operations or other claims and any claims that exceed our established levels of reserves;
- incurrence of additional expenses (including indemnification obligations) and other costs in connection with litigation, regulatory and investigatory matters;
- the outcome or other potential consequences of regulatory matters and commercial litigation;
- shortfalls in our insurance coverage;
- our charter provisions as well as provisions of certain debt agreements and our significant indebtedness may have the effect of making more difficult or otherwise discouraging, delaying or deterring a takeover or other change of control of us;
- turnover in our management team and inability to attract and retain key personnel;

- costs we incur being more than anticipated, and the inability to realize expected savings in the amounts or time frames planned;
- dependence on key suppliers to obtain equipment and other supplies for our business on acceptable terms;
- inability to sell our new or used fleet in the amounts, or at the prices, we expect;
- competition from existing and new competitors;

1. In April 2014, we acquired assets of the following four entities: National Pump & Compressor, Ltd., Canadian Pump and Compressor Ltd., GulfCo Industrial Equipment, LP and LD Services, LLC (collectively “National Pump”).

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- risks related to security breaches, cybersecurity attacks and other significant disruptions in our information technology systems;
- the costs of complying with environmental, safety and foreign law and regulations, as well as other risks associated with non-U.S. operations, including currency exchange risk;
- labor disputes, work stoppages or other labor difficulties, which may impact our productivity, and potential enactment of new legislation or other changes in law affecting our labor relations or operations generally; and
- increases in our maintenance and replacement costs and/or decreases in the residual value of our equipment.

For a more complete description of these and other possible risks and uncertainties, please refer to our Annual Report on Form 10-K for the year ended December 31, 2014, as well as to our subsequent filings with the SEC. Our forward-looking statements contained herein speak only as of the date hereof, and we make no commitment to update or publicly release any revisions to forward-looking statements in order to reflect new information or subsequent events, circumstances or changes in expectations.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNITED RENTALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

	September 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Cash and cash equivalents	$171	$158
Accounts receivable, net of allowance for doubtful accounts of $48 at September 30, 2015 and $43 at December 31, 2014	994	940
Inventory	77	78
Prepaid expenses and other assets	58	122
Deferred taxes	126	248
Total current assets	1,426	1,546
Rental equipment, net	6,438	6,008
Property and equipment, net	436	438
Goodwill	3,257	3,272
Other intangible assets, net	948	1,106
Other long-term assets	93	97
Total assets	$12,598	$12,467
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term debt and current maturities of long-term debt	$639	$618
Accounts payable	475	285
Accrued expenses and other liabilities	403	575
Total current liabilities	1,517	1,478
Long-term debt	7,876	7,434
Deferred taxes	1,653	1,692
Other long-term liabilities	55	65
Total liabilities	11,101	10,669
Temporary equity	—	2
Common stock—$0.01 par value, 500,000,000 shares authorized, 110,982,341 and 92,827,300 shares issued and outstanding, respectively, at September 30, 2015 and 108,233,686 and 97,877,580 shares issued and outstanding, respectively, at December 31, 2014	1	1
Additional paid-in capital	2,235	2,168
Retained earnings	919	503
Treasury stock at cost—18,155,041 and 10,356,106 shares at September 30, 2015 and December 31, 2014, respectively	(1,440)	(802)
Accumulated other comprehensive loss	(218)	(74)
Total stockholders' equity	1,497	1,796
Total liabilities and stockholders' equity	$12,598	$12,467

See accompanying notes.

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UNITED RENTALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(In millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Equipment rentals	$1,326	$1,315	$3,671	$3,499
Sales of rental equipment	141	140	381	388
Sales of new equipment	38	42	110	105
Contractor supplies sales	21	23	60	64
Service and other revenues	24	24	72	65
Total revenues	1,550	1,544	4,294	4,121
Cost of revenues:				
Cost of equipment rentals, excluding depreciation	470	480	1,359	1,336
Depreciation of rental equipment	249	236	724	682
Cost of rental equipment sales	85	82	217	227
Cost of new equipment sales	31	33	91	84
Cost of contractor supplies sales	15	16	42	44
Cost of service and other revenues	10	9	29	23
Total cost of revenues	860	856	2,462	2,396
Gross profit	690	688	1,832	1,725
Selling, general and administrative expenses	178	194	534	549
Merger related costs	—	4	(26)	13
Restructuring charge	—	(2)	1	(2)
Non-rental depreciation and amortization	66	70	202	200
Operating income	446	422	1,121	965
Interest expense, net	107	124	460	436
Other income, net	(1)	(5)	(10)	(10)
Income before provision for income taxes	340	303	671	539
Provision for income taxes	125	111	255	193
Net income	$215	$192	$416	$346
Basic earnings per share	$2.28	$1.95	$4.33	$3.57
Diluted earnings per share	$2.25	$1.84	$4.27	$3.29

See accompanying notes.

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UNITED RENTALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$215	$192	$416	$346
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments	(71)	(51)	(144)	(54)
Fixed price diesel swaps	(1)	—	—	—
Other comprehensive loss	(72)	(51)	(144)	(54)
Comprehensive income (1)	$143	$141	$272	$292

(1)There were no material reclassifications from accumulated other comprehensive loss reflected in other comprehensive loss during 2015 or 2014. There is no tax impact related to the foreign currency translation adjustments, as the earnings are considered permanently reinvested. There were no material taxes associated with other comprehensive loss during 2015 or 2014.

See accompanying notes.

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UNITED RENTALS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
(In millions)

	Common Stock				Treasury Stock		
	Number of Shares (1)	Amount	Additional Paid-in Capital	Retained Earnings	Number of Shares	Amount	Accumulated Other Comprehensive Loss (3)
Balance at December 31, 2014	98	$1	$ 2,168	$503	10	$(802)	$ (74)
Net income				416			
Foreign currency translation adjustments							(144)
Stock compensation expense, net			37				
Exercise of common stock options			1				
4 percent Convertible Senior Notes (2)	3		1				
Shares repurchased and retired			(29)				
Repurchase of common stock	(8)				8	(638)	
Excess tax benefits from share-based payment arrangements, net			57				
Balance at September 30, 2015	93	$1	$ 2,235	$919	18	$(1,440)	$ (218)

(1)An aggregate of less than 5 million net shares were issued during the year ended December 31, 2014.
(2)Reflects amortization of the original issue discount on the 4 percent Convertible Senior Notes (an amount equal to the unamortized portion of the original issue discount is reflected as "temporary equity" in our consolidated balance sheet) and the conversion of a portion of the 4 percent Convertible Senior Notes during the nine months ended September 30, 2015.
(3)The Accumulated Other Comprehensive Loss balance primarily reflects foreign currency translation adjustments.

See accompanying notes.

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UNITED RENTALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In millions)

	Nine Months Ended September 30,	
	2015	2014
Cash Flows From Operating Activities:		
Net income	$416	$346
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	926	882
Amortization of deferred financing costs and original issue discounts	8	14
Gain on sales of rental equipment	(164)	(161)
Gain on sales of non-rental equipment	(6)	(7)
Stock compensation expense, net	37	48
Merger related costs	(26)	13
Restructuring charge	1	(2)
Loss on repurchase/redemption of debt securities and amendment of ABL facility	123	80
Excess tax benefits from share-based payment arrangements	(57)	—
Increase in deferred taxes	94	134
Changes in operating assets and liabilities, net of amounts acquired:		
Increase in accounts receivable	(72)	(99)
Increase in inventory	—	(23)
Decrease in prepaid expenses and other assets	17	10
Increase in accounts payable	195	197
Increase in accrued expenses and other liabilities	65	34
Net cash provided by operating activities	1,557	1,466
Cash Flows From Investing Activities:		
Purchases of rental equipment	(1,425)	(1,484)
Purchases of non-rental equipment	(76)	(84)
Proceeds from sales of rental equipment	381	388
Proceeds from sales of non-rental equipment	14	26
Purchases of other companies, net of cash acquired	(86)	(752)
Net cash used in investing activities	(1,192)	(1,906)
Cash Flows From Financing Activities:		
Proceeds from debt	7,453	5,911
Payments of debt	(7,093)	(5,082)
Payment of contingent consideration	(52)	—
Proceeds from the exercise of common stock options	1	2
Common stock repurchased	(667)	(399)
Payments of financing costs	(27)	(22)
Cash received in connection with the 4 percent Convertible Senior Notes and related hedge, net	—	31
Excess tax benefits from share-based payment arrangements	57	—
Net cash (used in) provided by financing activities	(328)	441
Effect of foreign exchange rates	(24)	(8)
Net increase (decrease) in cash and cash equivalents	13	(7)
Cash and cash equivalents at beginning of period	158	175
Cash and cash equivalents at end of period	$171	$168
Supplemental disclosure of cash flow information:		

Cash paid for income taxes, net	$55	$60
Cash paid for interest	304	315

See accompanying notes.

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UNITED RENTALS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share data, unless otherwise indicated)
1. Organization, Description of Business and Basis of Presentation
United Rentals, Inc. (“Holdings,” “URI” or the “Company”) is principally a holding company and conducts its operations primarily through its wholly owned subsidiary, United Rentals (North America), Inc. (“URNA”), and subsidiaries of URNA. Holdings’ primary asset is its sole ownership of all issued and outstanding shares of common stock of URNA. URNA’s various credit agreements and debt instruments place restrictions on its ability to transfer funds to its shareholder.
We rent equipment to a diverse customer base that includes construction and industrial companies, manufacturers, utilities, municipalities, homeowners and government entities in the United States and Canada. In addition to renting equipment, we sell new and used rental equipment, as well as related contractor supplies, parts and service.
We have prepared the accompanying unaudited condensed consolidated financial statements in accordance with the accounting policies described in our annual report on Form 10-K for the year ended December 31, 2014 (the “2014 Form 10-K”) and the interim reporting requirements of Form 10-Q. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the 2014 Form 10-K.
In our opinion, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of financial condition, operating results and cash flows for the interim periods presented have been made. Interim results of operations are not necessarily indicative of the results of the full year.

New Accounting Pronouncements
Revenue from Contracts with Customers. In May 2014, the Financial Accounting Standards Board (“FASB”) issued guidance to clarify the principles for recognizing revenue. This guidance includes the required steps to achieve the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB has agreed to a one-year deferral of the original effective date of this guidance and as a result it will be effective for fiscal years and interim periods beginning after December 15, 2017. The FASB's update allows entities to apply the new guidance as of the original effective date (for fiscal years and interim periods beginning after December 15, 2016). We expect to adopt this guidance when effective, and the impact on our financial statements is not currently estimable.
Interest—Imputation of Interest. In April 2015, the FASB issued guidance on the presentation of debt issuance costs. This guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This guidance is effective for fiscal years and interim periods beginning after December 15, 2015, and requires retrospective application. Early adoption is permitted, and we plan to adopt this guidance during the fourth quarter of 2015. We do not expect this guidance to have a significant impact on our financial statements, although it will change the financial statement classification of our debt issuance costs. As of September 30, 2015, $86 of net debt issuance costs were included in total assets in our condensed consolidated balance sheet. Under the new guidance, the net debt issuance costs would reduce the total debt shown on our balance sheet.
Inventory. In July 2015, the FASB issued guidance that requires an entity to measure inventory at the lower of cost or net realizable value. Current GAAP requires that an entity measure inventory at the lower of cost or market, and market under current GAAP could be replacement cost, net realizable value, or net realizable value less a normal profit margin. This guidance is effective for fiscal years and interim periods beginning after December 15, 2016, and requires prospective application. Early adoption is permitted. We expect to adopt this guidance when effective, and do not expect this guidance to have a significant impact on our financial statements.
Business Combinations. In September 2015, the FASB issued guidance to simplify the accounting for adjustments made during the measurement period to provisional amounts recognized in a business combination. This guidance

requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the period in which the adjustment amount is determined. The acquirer is required to also record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition the acquirer is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if

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the adjustment to the provisional amounts had been recognized as of the acquisition date. This guidance is effective for fiscal years and interim periods beginning after December 15, 2015, and requires prospective application. Early adoption is permitted. We expect to adopt this guidance when effective, and do not expect this guidance to have a significant impact on our financial statements.

2. Acquisitions

In April 2014, we completed the acquisition of assets of the following four entities: National Pump & Compressor, Ltd., Canadian Pump and Compressor Ltd., GulfCo Industrial Equipment, LP and LD Services, LLC (collectively “National Pump”). National Pump was the second largest specialty pump rental company in North America. National Pump was a leading supplier of pumps for energy and petrochemical customers, with upstream oil and gas customers representing about half of its revenue. National Pump had a total of 35 branches, including four branches in western Canada, and had annual revenues of approximately $210. The acquisition is expected to expand our product offering, and supports our strategy of expanding our presence in industrial and specialty rental markets.

The acquisition date fair value of the consideration transferred consisted of the following:

Cash consideration (1)	$773
Contingent consideration (2)	76
Total purchase consideration (3)	$849

(1) Includes a ‘hold back’ of $58 that was paid in April 2015.

(2) Reflects the acquisition date fair value of the contingent consideration that was paid in June 2015 as discussed in note 6 to our condensed consolidated financial statements.

(3) Total purchase consideration excludes $15 of stock which was issued in connection with the acquisition and will be treated as compensation for book purposes but primarily represents deductible goodwill for income tax purposes.

The following table summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date:

Accounts receivable, net of allowance for doubtful accounts (1)	$44
Inventory	19
Deferred taxes	6
Rental equipment	172
Property and equipment	10
Intangibles (2)	289
Other assets	1
Total identifiable assets acquired	541
Current liabilities	(25)
Total liabilities assumed	(25)
Net identifiable assets acquired	516
Goodwill (3)	333
Net assets acquired	$849

(1) The fair value of accounts receivables acquired was $44, and the gross contractual amount was $47. We estimated that $3 would be uncollectible.

(2) The following table reflects the estimated fair values and useful lives of the acquired intangible assets identified based on our purchase accounting assessments:

	Fair value	Life (years)
Customer relationships	$274	10
Non-compete agreements	15	6
Total	$289	

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UNITED RENTALS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Dollars in millions, except per share data, unless otherwise indicated)

(3) $321 of the goodwill was assigned to our trench, power and pump segment and $12 of the goodwill was assigned to our general rentals segment. The level of goodwill that resulted from the acquisition is primarily reflective of National Pump's going-concern value, the value of National Pump's assembled workforce, new customer relationships expected to arise from the acquisition, and operational synergies that we expect to achieve that would not be available to other market participants. $325 of goodwill is expected to be deductible for income tax purposes. The amount of goodwill that is expected to be deductible for income tax purposes declined during the nine months ended September 30, 2015 due to a decline in the fair value of the contingent cash consideration component of the National Pump purchase price due to lower than expected financial performance compared to agreed upon financial targets, as discussed in note 6 to our condensed consolidated financial statements.
The nine months ended September 30, 2015 includes a National Pump acquisition-related cost reduction of $26. The cost reduction reflects a decline in the fair value of the contingent cash consideration component of the National Pump purchase price due to lower than expected financial performance compared to agreed upon financial targets, as discussed in note 6 to our condensed consolidated financial statements. The cost reduction is included in “Merger related costs” in our condensed consolidated statements of income, which also include costs associated with the 2012 acquisition of RSC Holdings Inc. (“RSC”). The merger related costs are comprised of financial and legal advisory fees, and changes subsequent to the acquisition date to the fair value of the contingent cash consideration component of the National Pump purchase price as discussed in note 6 to our condensed consolidated financial statements. We do not expect to incur significant additional charges in connection with the acquisition subsequent to September 30, 2015. In addition to the acquisition-related costs reflected in our condensed consolidated statements of income, we capitalized $22 of debt issuance costs associated with the issuance of debt to fund the acquisition, which are reflected, net of amortization subsequent to the acquisition date, in other long-term assets in our condensed consolidated balance sheets.
The pro forma information below has been prepared using the purchase method of accounting, giving effect to the National Pump acquisition as if it had been completed on January 1, 2014 (“the pro forma acquisition date”). The pro forma information is not necessarily indicative of our results of operations had the acquisition been completed on the above date, nor is it necessarily indicative of our future results. The pro forma information does not reflect any cost savings from operating efficiencies or synergies that could result from the acquisition, and also does not reflect additional revenue opportunities following the acquisition. The table below presents unaudited pro forma consolidated income statement information as if National Pump had been included in our consolidated results for the entire periods reflected:

	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
United Rentals historic revenues	$ 1,544	$ 4,121
National Pump historic revenues	—	62
Pro forma revenues	1,544	4,183
United Rentals historic pretax income	303	539
National Pump historic pretax income	—	20
Combined pretax income	303	559
Pro forma adjustments to combined pretax income:		
Impact of fair value mark-ups/useful life changes on depreciation (1)	—	(1)
Intangible asset amortization (2)	(1)	(12)
Interest expense (3)	(4)	58
Elimination of merger costs (4)	(1)	8

Pro forma pretax income	$ 297	$ 612

(1) Depreciation of rental equipment and non-rental depreciation were adjusted for the fair value mark-ups of equipment acquired in the National Pump acquisition. The useful lives assigned to such equipment did not change significantly from the lives historically used by National Pump.
(2) The intangible assets acquired in the National Pump acquisition were amortized.
(3) In connection with the National Pump acquisition, URNA issued $525 principal amount of 6 $^{1}/_{8}$ percent Senior Notes (as an add on to our existing 6 $^{1}/_{8}$ percent Senior Notes) and $850 principal amount of 5 $^{3}/_{4}$ percent Senior Notes, and all our

(Dollars in millions, except per share data, unless otherwise indicated)

outstanding 9 $^{1}/_{4}$ percent Senior Notes were redeemed. Interest expense was adjusted to reflect these changes in our debt portfolio. For the pro forma presentation, the $64 loss recognized upon redemption of the 9 $^{1}/_{4}$ percent Senior Notes was removed from the nine months ended September 30, 2014 as the loss was assumed to have been recognized prior to the pro forma acquisition date.

(4) Merger related costs, primarily comprised of financial and legal advisory fees, associated with the National Pump acquisition were eliminated as they were assumed to have been recognized prior to the pro forma acquisition date.

For the three and nine months ended September 30, 2015 and 2014 National Pump revenue and pretax income (loss) included in our condensed consolidated financial statements were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	$59	$73	$170	$140
Pretax income (loss) (1)	2	16	(2)	30

(1) Pretax income (loss) excludes merger related costs which are not allocated to our segments. Pretax income (loss) for the three and nine months ended September 30, 2015 reflects volume and pricing pressure associated with upstream oil and gas customers, and the amortization of the intangible assets acquired in the National Pump acquisition.

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3. Segment Information

Our reportable segments are general rentals and trench, power and pump. The general rentals segment includes the rental of construction, infrastructure, industrial and homeowner equipment and related services and activities. The general rentals segment's customers include construction and industrial companies, manufacturers, utilities, municipalities, homeowners and government entities. The general rentals segment comprises 11 geographic regions—Eastern Canada, Industrial (which serves the geographic Gulf region and has a strong industrial presence), Mid-Atlantic, Midwest, Mountain West, Northeast, Pacific West, South-Central, South, Southeast and Western Canada—and operates throughout the United States and Canada. The trench, power and pump segment includes the rental of specialty construction products and related services. The trench, power and pump segment is comprised of the Trench Safety region, which rents trench safety equipment such as trench shields, aluminum hydraulic shoring systems, slide rails, crossing plates, construction lasers and line testing equipment for underground work, the Power and HVAC (heating, ventilating and air conditioning) region, which rents power and HVAC equipment such as portable diesel generators, electrical distribution equipment, and temperature control equipment including heating and cooling equipment, and the Pump Solutions region, which rents pumps primarily used by energy and petrochemical customers. The trench, power and pump segment's customers include construction companies involved in infrastructure projects, municipalities and industrial companies. This segment operates throughout the United States and in Canada. These segments align our external segment reporting with how management evaluates and allocates resources. We evaluate segment performance based on segment equipment rentals gross profit.

The following tables set forth financial information by segment.

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UNITED RENTALS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Dollars in millions, except per share data, unless otherwise indicated)

	General rentals	Trench, power and pump	Total
Three Months Ended September 30, 2015			
Equipment rentals	$1,120	$206	$1,326
Sales of rental equipment	132	9	141
Sales of new equipment	33	5	38
Contractor supplies sales	18	3	21
Service and other revenues	23	1	24
Total revenue	1,326	224	1,550
Depreciation and amortization expense	272	43	315
Equipment rentals gross profit	500	107	607
Three Months Ended September 30, 2014			
Equipment rentals	$1,127	$188	$1,315
Sales of rental equipment	133	7	140
Sales of new equipment	31	11	42
Contractor supplies sales	19	4	23
Service and other revenues	21	3	24
Total revenue	1,331	213	1,544
Depreciation and amortization expense	267	39	306
Equipment rentals gross profit	496	103	599
Nine Months Ended September 30, 2015			
Equipment rentals	$3,144	$527	$3,671
Sales of rental equipment	356	25	381
Sales of new equipment	94	16	110
Contractor supplies sales	51	9	60
Service and other revenues	65	7	72
Total revenue	3,710	584	4,294
Depreciation and amortization expense	798	128	926
Equipment rentals gross profit	1,339	249	1,588
Capital expenditures	1,325	176	1,501
Nine Months Ended September 30, 2014			
Equipment rentals	$3,079	$420	$3,499
Sales of rental equipment	371	17	388
Sales of new equipment	80	25	105
Contractor supplies sales	55	9	64
Service and other revenues	55	10	65
Total revenue	3,640	481	4,121
Depreciation and amortization expense	789	93	882
Equipment rentals gross profit	1,266	215	1,481
Capital expenditures	1,391	177	1,568

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(Dollars in millions, except per share data, unless otherwise indicated)

	September 30, 2015	December 31, 2014
Total reportable segment assets		
General rentals	$11,019	$10,935
Trench, power and pump	1,579	1,532
Total assets	$12,598	$12,467

Equipment rentals gross profit is the primary measure management reviews to make operating decisions and assess segment performance. The following is a reconciliation of equipment rentals gross profit to income before provision for income taxes:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Total equipment rentals gross profit	$607	$599	$1,588	$1,481
Gross profit from other lines of business	83	89	244	244
Selling, general and administrative expenses	(178)	(194)	(534)	(549)
Merger related costs	—	(4)	26	(13)
Restructuring charge	—	2	(1)	2
Non-rental depreciation and amortization	(66)	(70)	(202)	(200)
Interest expense, net	(107)	(124)	(460)	(436)
Other income, net	1	5	10	10
Income before provision for income taxes	$340	$303	$671	$539

4. Restructuring Charges
Closed Restructuring Program
Between 2008 and 2011 and in recognition of a very challenging economic environment, we were intensely focused on reducing our operating costs. During this period, we reduced our employee headcount from approximately 10,900 at January 1, 2008 (the beginning of the restructuring period) to approximately 7,500 at December 31, 2011 (the end of the restructuring period). Additionally, we reduced our branch network from 697 locations at January 1, 2008 to 529 locations at December 31, 2011.
RSC Merger Related Restructuring Program
In the second quarter of 2012, we initiated a restructuring program related to severance costs and branch closure charges associated with the April 2012 acquisition of RSC. The branch closure charges principally relate to continuing lease obligations at vacant facilities closed subsequent to the RSC acquisition. As of September 30, 2015, our employee headcount is approximately 12,700 and our branch network has 900 rental locations. We do not expect to incur significant additional charges in connection with the restructuring, which was complete as of June 30, 2013 (the end of the restructuring period).
The table below provides certain information concerning our restructuring charges for the nine months ended September 30, 2015:

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Description	Reserve Balance at December 31, 2014	Charged to Costs and Expenses (1)	Payments and Other	Reserve Balance at September 30, 2015
Closed Restructuring Program				
Branch closure charges	$9	$1	$(3)	$7
Severance costs	—	—	—	—
Total	$9	$1	$(3)	$7
RSC Merger Related Restructuring Program				
Branch closure charges	$11	$—	$(4)	$7
Severance costs	—	—	—	—
Total	$11	$—	$(4)	$7
Total				
Branch closure charges	$20	$1	$(7)	$14
Severance costs	—	—	—	—
Total	$20	$1	$(7)	$14

(1) Reflected in our condensed consolidated statements of income as "Restructuring charge." These charges are not allocated to our reportable segments.

5. Derivatives

We recognize all derivative instruments as either assets or liabilities at fair value, and recognize changes in the fair value of the derivative instruments based on the designation of the derivative. For derivative instruments that are designated and qualify as hedging instruments, we designate the hedging instrument, based upon the exposure being hedged, as either a fair value hedge or a cash flow hedge. As of September 30, 2015, we do not have any outstanding derivative instruments designated as fair value hedges. The effective portion of the changes in fair value of derivatives that are designated as cash flow hedges is recorded as a component of accumulated other comprehensive income. Amounts included in accumulated other comprehensive income for cash flow hedges are reclassified into earnings in the same period that the hedged item is recognized in earnings. The ineffective portion of changes in the fair value of derivatives designated as cash flow hedges is recorded currently in earnings. For derivative instruments that do not qualify for hedge accounting, we recognize gains or losses due to changes in fair value in our condensed consolidated statements of income during the period in which the changes in fair value occur. As of September 30, 2015, we do not have any derivative instruments that do not qualify for hedge accounting.

We are exposed to certain risks related to our ongoing business operations. During the nine months ended September 30, 2015 and 2014, the primary risks we managed using derivative instruments were diesel price risk and foreign currency exchange rate risk. At September 30, 2015, we had outstanding fixed price swap contracts on diesel purchases which were entered into to mitigate the price risk associated with forecasted purchases of diesel. During the nine months ended September 30, 2015, we entered into forward contracts to purchase Canadian dollars to mitigate the foreign currency exchange rate risk associated with certain Canadian dollar denominated intercompany loans. At September 30, 2015 and December 31, 2014, there were no outstanding forward contracts to purchase Canadian dollars. The outstanding forward contracts on diesel purchases were designated and qualify as cash flow hedges and the forward contracts to purchase Canadian dollars represented derivative instruments not designated as hedging instruments.

Fixed Price Diesel Swaps

The fixed price swap contracts on diesel purchases that were outstanding at September 30, 2015 were designated and qualify as cash flow hedges and the effective portion of the gain or loss on these contracts is reported as a component of accumulated other comprehensive income and is reclassified into earnings in the period during which the hedged transaction affects earnings (i.e., when the hedged gallons of diesel are used). The remaining gain or loss on the fixed price swap contracts in excess of the cumulative change in the present value of future cash flows of the hedged item, if any (i.e., the ineffective portion), is recognized in our condensed consolidated statements of income during the current period. As of September 30, 2015, we had outstanding fixed price swap contracts covering 9.5 million gallons of diesel which will be purchased throughout 2015 and 2016.

(Dollars in millions, except per share data, unless otherwise indicated)

Foreign Currency Forward Contracts

The forward contracts to purchase Canadian dollars, which were all settled as of September 30, 2015, represented derivative instruments not designated as hedging instruments and gains or losses due to changes in the fair value of the forward contracts were recognized in our condensed consolidated statements of income during the period in which the changes in fair value occurred. During the three and nine months ended September 30, 2015, forward contracts were used to purchase $221 Canadian dollars, representing the total amount due at maturity for certain Canadian dollar denominated intercompany loans that were settled during the three and nine months ended September 30, 2015. Upon maturity, the proceeds from the forward contracts were used to pay down the Canadian dollar denominated intercompany loans.

Financial Statement Presentation

As of September 30, 2015 and December 31, 2014, immaterial amounts ($4 or less) were reflected in prepaid expenses and other assets, accrued expenses and other liabilities, and accumulated other comprehensive income in our condensed consolidated balance sheets associated with the outstanding fixed price swap contracts that were designated and qualify as cash flow hedges.

The effect of our derivative instruments on our condensed consolidated statements of income for the three and nine months ended September 30, 2015 and 2014 was as follows:

		Three Months Ended September 30, 2015		Three Months Ended September 30, 2014	
	Location of income (expense) recognized on derivative/hedged item	Amount of income (expense) recognized on derivative	Amount of income (expense) recognized on hedged item	Amount of income (expense) recognized on derivative	Amount of income (expense) recognized on hedged item
Derivatives designated as hedging instruments:					
Fixed price diesel swaps	Other income (expense), net (1)	$ *		$ *	
	Cost of equipment rentals, excluding depreciation (2), (3)	(2)	$(7)	*	$(10)
Derivatives not designated as hedging instruments:					
Foreign currency forward contracts (4)	Other income (expense), net	(5)	5	(3)	3

		Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
	Location of income (expense) recognized on derivative/hedged item	Amount of income (expense) recognized on derivative	Amount of income (expense) recognized on hedged item	Amount of income (expense) recognized on derivative	Amount of income (expense) recognized on hedged item

Derivatives designated as hedging instruments:					
Fixed price diesel swaps	Other income (expense), net (1)	$ *		$ *	
	Cost of equipment rentals, excluding depreciation (2), (3)	(5)	$(23)	*	$(32)
Derivatives not designated as hedging instruments:					
Foreign currency forward contracts (4)	Other income (expense), net	(5)	5	(3)	3

* Amounts are insignificant (less than $1).

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UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in millions, except per share data, unless otherwise indicated)

(1) Represents the ineffective portion of the fixed price diesel swaps.

(2) Amounts recognized on derivative represent the effective portion of the fixed price diesel swaps.

(3) Amounts recognized on hedged item reflect the use of 2.8 million and 2.6 million gallons of diesel covered by the fixed price swaps during the three months ended September 30, 2015 and 2014, respectively, and the use of 8.2 million gallons of diesel covered by the fixed price swaps during the nine months ended September 30, 2015 and 2014. These amounts are reflected, net of cash received from, or paid to, the counterparties to the fixed price swaps, in operating cash flows in our condensed consolidated statement of cash flows.

(4) Insignificant amounts were reflected in our condensed consolidated statement of cash flows associated with the forward contracts to purchase Canadian dollars, as the cash impact of the gains/losses recognized on the derivatives were offset by the gains/losses recognized on the hedged items.

6. Fair Value Measurements

We account for certain assets and liabilities at fair value. We categorize each of our fair value measurements in one of the following three levels based on the lowest level input that is significant to the fair value measurement in its entirety:

Level 1- Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2- Observable inputs other than quoted prices in active markets for identical assets or liabilities include:

a) quoted prices for similar assets or liabilities in active markets;
b) quoted prices for identical or similar assets or liabilities in inactive markets;
c) inputs other than quoted prices that are observable for the asset or liability;
d) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3- Inputs to the valuation methodology are unobservable (i.e., supported by little or no market activity) and significant to the fair value measure.

Assets and Liabilities Measured at Fair Value

Our fixed price diesel swaps contracts are Level 2 derivatives measured at fair value on a recurring basis. As of September 30, 2015 and December 31, 2014, immaterial amounts ($4 or less) were reflected in prepaid expenses and other assets, and accrued expenses and other liabilities in our condensed consolidated balance sheets, reflecting the fair values of the fixed price diesel swaps contracts. As discussed in note 5 to the condensed consolidated financial statements, we entered into the fixed price swap contracts on diesel purchases to mitigate the price risk associated with forecasted purchases of diesel. Fair value is determined based on observable market data. As of September 30, 2015, we have fixed price swap contracts that mature throughout 2015 and 2016 covering 9.5 million gallons of diesel which we will buy at the average contract price of $3.06 per gallon, while the average forward price for the hedged gallons was $2.65 per gallon as of September 30, 2015.

The fair value of the contingent cash consideration component of the National Pump purchase price discussed in note 2 to our condensed consolidated financial statements was $0 as of September 30, 2015 and $78 as of December 31, 2014. In June 2015, we paid the contingent consideration and were relieved of further liabilities associated therewith. The contingent consideration was recorded in accrued expenses and other liabilities in our condensed consolidated balance sheets, and was a Level 3 liability that was measured at fair value on a recurring basis. Fair value was determined using a probability weighted discounted cash flow methodology. Key inputs to the valuation included: (i) discrete scenarios of potential payouts; (ii) probability weightings assigned to each of the scenarios; and (iii) a rate of return with which to discount the probability weighted payouts to present value. Changes to the fair value of the contingent cash consideration are reflected in our condensed consolidated statements of income as “Merger related costs” which included a $26 fair value reduction for the nine months ended September 30, 2015. In June 2015, we paid the liability remaining after recognizing the decline in fair value, and were relieved of further liabilities associated therewith. The decline in the fair value of the contingent cash consideration primarily relates to lower than expected financial performance compared to agreed upon financial targets.

(Dollars in millions, except per share data, unless otherwise indicated)

Fair Value of Financial Instruments

The carrying amounts reported in our condensed consolidated balance sheets for accounts receivable, accounts payable and accrued expenses and other liabilities approximate fair value due to the immediate to short-term maturity of these financial instruments. The fair values of our senior secured asset-based revolving credit facility ("ABL facility"), accounts receivable securitization facility and capital leases approximate their book values as of September 30, 2015 and December 31, 2014. The estimated fair values of our financial instruments as of September 30, 2015 and December 31, 2014 have been calculated based upon available market information, and are presented below by level in the fair value hierarchy:

	September 30, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Level 1:				
Senior and senior subordinated notes	$5,989	$5,949	$6,063	$6,390
Level 2:				
4 percent Convertible Senior Notes (1)	8	8	32	33

(1) The fair value of the 4 percent Convertible Senior Notes is based on the market value of comparable notes. Consistent with the carrying amount, the fair value excludes the equity component of the notes. To exclude the equity component and calculate the fair value, we used an effective interest rate of 7.3 percent. As discussed below (see Item 3- Quantitative and Qualitative Disclosures about Market Risk), the total cost to settle the notes based on the closing price of our common stock on September 30, 2015 would be $41.

7. Debt

Debt consists of the following:

	September 30, 2015	December 31, 2014
URNA and subsidiaries debt:		
Accounts Receivable Securitization Facility (1)	$594	$548
$2.5 billion ABL Facility (2)	1,829	1,304
5 $^{3}/_{4}$ percent Senior Secured Notes (3)	—	750
7 $^{3}/_{8}$ percent Senior Notes	750	750
8 $^{3}/_{8}$ percent Senior Subordinated Notes (3)	—	750
8 $^{1}/_{4}$ percent Senior Notes (4)	315	687
7 $^{5}/_{8}$ percent Senior Notes	1,325	1,325
6 $^{1}/_{8}$ percent Senior Notes	949	951
4 $^{5}/_{8}$ percent Senior Secured Notes (5)	1,000	—
5 $^{3}/_{4}$ percent Senior Notes	850	850
5 $^{1}/_{2}$ percent Senior Notes (6)	800	—
Capital leases	95	105
Total URNA and subsidiaries debt	8,507	8,020
Holdings:		
4 percent Convertible Senior Notes (7)	8	32
Total debt	8,515	8,052
Less short-term portion (8)	(639)	(618)
Total long-term debt	$7,876	$7,434

(1) In September 2015, the accounts receivable securitization facility was amended, primarily to increase the facility size and to extend the maturity date which may be further extended on a 364-day basis by mutual agreement with the purchasers

under the accounts receivable securitization facility. The size of the facility was increased to $625. The amended facility expires on August 30, 2016. At September 30, 2015, $21 was available under our accounts receivable securitization facility. The interest rate applicable to the accounts receivable securitization facility was 0.8 percent at September 30, 2015. During the nine months ended September 30, 2015, the monthly average amount outstanding under the accounts receivable securitization facility was $490, and the weighted-average interest rate thereon was 0.8 percent. The maximum month-end amount outstanding under the accounts receivable securitization facility during the nine months ended September 30, 2015 was $594. Borrowings under the accounts receivable securitization facility are permitted only to the extent that the face amount of the receivables in the collateral pool, net of applicable reserves, exceeds the outstanding loans. As of September 30, 2015, there were $614 of receivables, net of applicable reserves, in the collateral pool.

(2) At September 30, 2015, $622 was available under our ABL facility, net of $49 of letters of credit. The interest rate applicable to the ABL facility was 1.8 percent at September 30, 2015. During the nine months ended September 30, 2015, the monthly average amount outstanding under the ABL facility was $1.4 billion, and the weighted-average interest rate thereon was 1.9 percent. The maximum month-end amount outstanding under the ABL facility during the nine months ended September 30, 2015 was $1.8 billion. In March 2015, the ABL facility was amended, primarily to increase the facility size and to extend the maturity date. The size of the facility was increased to $2.5 billion. All amounts borrowed under the ABL facility must be repaid on or before March 2020.

(3) In April 2015, we redeemed all of our 5 $^{3}/_{4}$ percent Senior Secured Notes and 8 $^{3}/_{8}$ percent Senior Subordinated Notes. Upon redemption, we recognized an aggregate loss of $106 in interest expense, net. The loss represented the difference between the net carrying amount and the total purchase price of the notes.

(4) In April 2015, we redeemed $350 principal amount of our 8 $^{1}/_{4}$ percent Senior Notes. Upon redemption, we recognized a loss of $15 in interest expense, net. The loss represented the difference between the net carrying amount and the total purchase price of the redeemed notes.

(5) In March 2015, URNA issued $1.0 billion aggregate principal amount of 4 $^{5}/_{8}$ percent Senior Secured Notes (the “4 $^{5}/_{8}$ percent Notes”) which are due July 15, 2023. The net proceeds from issuance were approximately $990 (after deducting offering expenses). The 4 $^{5}/_{8}$ percent Notes are guaranteed by Holdings and certain domestic subsidiaries of URNA and are secured on a second-priority basis by liens on substantially all of URNA’s and the guarantors’ assets that secure the ABL facility, subject to certain exceptions. The 4 $^{5}/_{8}$ percent Notes may be redeemed on or after July 15, 2018, at specified redemption prices that range from 103.469 percent in 2018, to 100 percent in 2021 and thereafter, plus accrued and unpaid interest, if any. The indenture governing the 4 $^{5}/_{8}$ percent Notes contains certain restrictive covenants, including, among others, limitations on (i) liens; (ii) additional indebtedness; (iii) mergers, consolidations and acquisitions; (iv) sales, transfers and other dispositions of assets; (v) loans and other investments; (vi) dividends and other distributions, stock repurchases and redemptions and other restricted payments; (vii) restrictions affecting subsidiaries; (viii) transactions with affiliates; and (ix) designations of unrestricted subsidiaries, as well as a requirement to timely file periodic reports with the SEC. The indenture also includes covenants relating to the grant of and maintenance of liens for the benefit of the notes collateral agent. Each of the restrictive covenants is subject to important exceptions and qualifications that would allow URNA and its subsidiaries to engage in these activities under certain conditions. The indenture also requires that, in the event of a change of control (as defined in the indenture), URNA must make an offer to purchase all of the then-outstanding 4 $^{5}/_{8}$ percent Notes tendered at a purchase price in cash equal to 101 percent of the principal amount thereof, plus accrued and unpaid interest, if any, thereon.

(6) In March 2015, URNA issued $800 aggregate principal amount of 5 $^{1}/_{2}$ percent Senior Notes (the “5$^{1}/_{2}$ percent Notes”) which are due July 15, 2025. The net proceeds from the issuance were approximately $792 (after deducting offering expenses). The 5 $^{1}/_{2}$ percent Notes are unsecured and are guaranteed by Holdings and certain domestic subsidiaries of URNA. The 5 $^{1}/_{2}$ percent Notes may be redeemed on or after July 15, 2020, at specified redemption

prices that range from 102.75 percent in 2020, to 100 percent in 2023 and thereafter, plus accrued and unpaid interest, if any. The indenture governing the 5 $^{1}/_{2}$ percent Notes contains certain restrictive covenants, including, among others, limitations on (i) liens; (ii) additional indebtedness; (iii) mergers, consolidations and acquisitions; (iv) sales, transfers and other dispositions of assets; (v) loans and other investments; (vi) dividends and other distributions, stock repurchases and redemptions and other restricted payments; (vii) restrictions affecting subsidiaries; (viii) transactions with affiliates; and (ix) designations of unrestricted subsidiaries, as well as a requirement to timely file periodic reports with the SEC. Each of the restrictive covenants is subject to important exceptions and qualifications that would allow URNA and its subsidiaries to engage in these activities under certain conditions. The indenture also requires that, in the event of a change of control (as defined in the indenture), URNA must make an offer to purchase all of the then-outstanding 5 $^{1}/_{2}$ percent Notes tendered at a purchase price in cash equal to 101 percent of the principal amount thereof, plus accrued and unpaid interest, if any, thereon.

(7) During the nine months ended September 30, 2015, $26 of our 4 percent Convertible Senior Notes were redeemed. We recognized a loss of approximately $1 in interest expense, net upon redemption. The loss represented the difference

between the net carrying amount and the fair value of the debt component of the notes. The 4 percent Convertible Senior Notes are due November 15, 2015.

(8) As of September 30, 2015, our short-term debt primarily reflects $594 of borrowings under our accounts receivable securitization facility.

Convertible Note Hedge Transactions

In connection with the November 2009 issuance of $173 aggregate principal amount of 4 percent Convertible Senior Notes, Holdings entered into convertible note hedge transactions with option counterparties. The convertible note hedge transactions cost $26, and decreased additional paid-in capital by $17, net of taxes, in our accompanying condensed consolidated statements of stockholders’ equity. The convertible note hedge transactions cover, subject to anti-dilution adjustments, 0.7 million shares of our common stock. The convertible note hedge transactions are intended to reduce, subject to a limit, the potential dilution with respect to our common stock upon conversion of the 4 percent Convertible Senior Notes. The effect of the convertible note hedge transactions is to increase the effective conversion price to $15.56 per share, equal to an approximately 75 percent premium over the $8.89 closing price of our common stock at issuance. The effective conversion price is subject to change in certain circumstances. In the event the market value of our common stock exceeds the effective conversion price per share, the settlement amount received from such transactions will only partially offset the potential dilution. For example, if, at the time of exercise of the conversion right, the price of our common stock was $65.00 per share, assuming an effective conversion price of $15.56 per share, on a net basis, we would issue 0.5 million shares. The 4 percent Convertible Senior Notes are due November 15, 2015.

Loan Covenants and Compliance

As of September 30, 2015, we were in compliance with the covenants and other provisions of the ABL facility, the accounts receivable securitization facility and the senior notes. Any failure to be in compliance with any material provision or covenant of these agreements could have a material adverse effect on our liquidity and operations.

The only financial covenant which currently exists under the ABL facility relates to the fixed charge coverage ratio. As of September 30, 2015, specified availability under the ABL facility exceeded the required threshold and, as a result, this maintenance covenant is inapplicable. Subject to certain limited exceptions specified in the ABL facility, the fixed charge coverage ratio covenant under the ABL facility will only apply in the future if specified availability under the ABL facility falls below 10 percent of the maximum revolver amount under the ABL facility. When certain conditions are met, cash and cash equivalents and borrowing base collateral in excess of the ABL facility size may be included when calculating specified availability under the ABL facility. Under our accounts receivable securitization facility, we are required, among other things, to maintain certain financial tests relating to: (i) the default ratio, (ii) the delinquency ratio, (iii) the dilution ratio and (iv) days sales outstanding. The accounts receivable securitization facility requires us to comply with the fixed charge coverage ratio under the ABL facility, to the extent the ratio is applicable under the ABL facility.

8. Legal and Regulatory Matters

In addition to the disclosures provided in note 14 to our consolidated financial statements for the year ended December 31, 2014 filed on Form 10-K on January 21, 2015, we are also subject to a number of claims and proceedings that generally arise in the ordinary course of our business. These matters include, but are not limited to, general liability claims (including personal injury, property and auto claims), indemnification and guarantee obligations, employee injuries and employment-related claims, self-insurance obligations, contract and real estate matters, and other general business litigation. Based on advice of counsel and available information, including current status or stage of proceeding, and taking into account accruals for matters where we have established them, we currently believe that any liabilities ultimately resulting from such claims and proceedings will not, individually or in the aggregate, have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

9. Earnings Per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding. Diluted earnings per share is computed by dividing net income available to common stockholders by the weighted-average number of common shares plus the effect of dilutive potential common shares outstanding during the period. The following table sets forth the computation of basic and diluted earnings per share (shares in thousands):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator:				
Net income available to common stockholders	$215	$192	416	346
Denominator:				
Denominator for basic earnings per share—weighted-average common shares	94,213	98,485	95,992	96,916
Effect of dilutive securities:				
Employee stock options and warrants	291	376	311	407
4 percent Convertible Senior Notes	574	4,748	786	7,606
Restricted stock units	113	467	196	465
Denominator for diluted earnings per share—adjusted weighted-average common shares	95,191	104,076	97,285	105,394
Basic earnings per share	$2.28	$1.95	$4.33	$3.57
Diluted earnings per share	$2.25	$1.84	$4.27	$3.29

10. Condensed Consolidating Financial Information of Guarantor Subsidiaries

URNA is 100 percent owned by Holdings (“Parent”) and has outstanding (i) certain indebtedness that is guaranteed by Parent, (ii) certain indebtedness that is guaranteed by both Parent and, with the exception of its U.S. special purpose vehicle which holds receivable assets relating to the Company’s accounts receivable securitization facility (the “SPV”), all of URNA’s U.S. subsidiaries (the “guarantor subsidiaries”) and (iii) certain indebtedness that is guaranteed only by the guarantor subsidiaries (specifically, the 8 $^{1}/4$ percent Senior Notes). Other than the guarantee by certain Canadian subsidiaries of URNA's indebtedness under the ABL facility, none of URNA’s indebtedness is guaranteed by URNA's foreign subsidiaries or the SPV (together, the “non-guarantor subsidiaries”). The receivable assets owned by the SPV have been sold by URNA to the SPV and are not available to satisfy the obligations of URNA or Parent’s other subsidiaries. The guarantor subsidiaries are all 100 percent-owned and the guarantees are made on a joint and several basis. The guarantees are not full and unconditional because a guarantor subsidiary can be automatically released and relieved of its obligations under certain circumstances, including sale of the guarantor subsidiary, the sale of all or substantially all of the guarantor subsidiary's assets, the requirements for legal defeasance or covenant defeasance under the applicable indenture being met or designating the guarantor subsidiary as an unrestricted subsidiary for purposes of the applicable covenants. The guarantees are also subject to subordination provisions (to the same extent that the obligations of the issuer under the relevant notes are subordinated to other debt of the issuer) and to a standard limitation which provides that the maximum amount guaranteed by each guarantor will not exceed the maximum amount that can be guaranteed without making the guarantee void under fraudulent conveyance laws. Based on our understanding of Rule 3-10 of Regulation S-X ("Rule 3-10"), we believe that the guarantees of the guarantor subsidiaries comply with the conditions set forth in Rule 3-10 and therefore continue to utilize Rule 3-10 to present condensed consolidating financial information for Holdings, URNA, the guarantor subsidiaries and the non-guarantor subsidiaries. Separate consolidated financial statements of the guarantor subsidiaries have not been presented because management believes that such information would not be material to investors. However, condensed consolidating financial information is presented.

URNA covenants in the ABL facility, accounts receivable securitization facility and the other agreements governing our debt impose operating and financial restrictions on URNA, Parent and the guarantor subsidiaries, including limitations on the ability to make restricted payments, which include share repurchases and dividend payments. As of September 30, 2015, the amount available for distribution under the most restrictive of these covenants was $298. The Company’s total available capacity for making restricted payments includes the intercompany receivable balance of Parent. As of September 30, 2015, the total available capacity for making restricted payments was $494.

The condensed consolidating financial information of Parent and its subsidiaries is as follows:

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CONDENSED CONSOLIDATING BALANCE SHEET
September 30, 2015

	Parent	URNA	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		Eliminations	Total
				Foreign	SPV		
ASSETS							
Cash and cash equivalents	$—	$16	$—	$155	$—	$—	$171
Accounts receivable, net	—	41	—	116	837	—	994
Intercompany receivable (payable)	196	22	(183)	(143)	—	108	—
Inventory	—	70	—	7	—	—	77
Prepaid expenses and other assets	—	48	1	9	—	—	58
Deferred taxes	—	125	—	1	—	—	126
Total current assets	196	322	(182)	145	837	108	1,426
Rental equipment, net	—	5,869	—	569	—	—	6,438
Property and equipment, net	44	330	20	42	—	—	436
Investments in subsidiaries	1,288	1,000	938	—	—	(3,226)	—
Goodwill	—	3,000	—	257	—	—	3,257
Other intangible assets, net	—	880	—	68	—	—	948
Other long-term assets	—	93	—	—	—	—	93
Total assets	$1,528	$11,494	$776	$1,081	$837	$(3,118)	$12,598
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)							
Short-term debt and current maturities of long-term debt	$9	$36	$—	$—	$594	$—	$639
Accounts payable	—	428	—	47	—	—	475
Accrued expenses and other liabilities	1	366	14	22	—	—	403
Total current liabilities	10	830	14	69	594	—	1,517
Long-term debt	3	7,752	113	8	—	—	7,876
Deferred taxes	18	1,569	—	66	—	—	1,653
Other long-term liabilities	—	55	—	—	—	—	55
Total liabilities	31	10,206	127	143	594	—	11,101
Total stockholders' equity (deficit)	1,497	1,288	649	938	243	(3,118)	1,497
Total liabilities and stockholders' equity (deficit)	$1,528	$11,494	$776	$1,081	$837	$(3,118)	$12,598

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UNITED RENTALS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Dollars in millions, except per share data, unless otherwise indicated)

CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2014

	Parent	URNA	Guarantor Subsidiaries	Non-Guarantor Subsidiaries Foreign	Non-Guarantor Subsidiaries SPV	Eliminations	Total
ASSETS							
Cash and cash equivalents	$—	$8	$—	$150	$—	$—	$158
Accounts receivable, net	—	37	—	144	759	—	940
Intercompany receivable (payable)	476	(428)	(60)	(109)	—	121	—
Inventory	—	69	—	9	—	—	78
Prepaid expenses and other assets	—	113	1	8	—	—	122
Deferred taxes	—	246	—	2	—	—	248
Total current assets	476	45	(59)	204	759	121	1,546
Rental equipment, net	—	5,399	—	609	—	—	6,008
Property and equipment, net	42	332	21	43	—	—	438
Investments in subsidiaries	1,330	1,185	1,040	—	—	(3,555)	—
Goodwill	—	3,000	—	272	—	—	3,272
Other intangible assets, net	—	1,014	—	92	—	—	1,106
Other long-term assets	1	96	—	—	—	—	97
Total assets	$1,849	$11,071	$1,002	$1,220	$759	$(3,434)	$12,467
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)							
Short-term debt and current maturities of long-term debt	$32	$38	$—	$—	$548	$—	$618
Accounts payable	—	248	—	37	—	—	285
Accrued expenses and other liabilities	—	499	19	57	—	—	575
Total current liabilities	32	785	19	94	548	—	1,478
Long-term debt	—	7,298	130	6	—	—	7,434
Deferred taxes	19	1,594	—	79	—	—	1,692
Other long-term liabilities	—	64	—	1	—	—	65
Total liabilities	51	9,741	149	180	548	—	10,669
Temporary equity	2	—	—	—	—	—	2
Total stockholders' equity (deficit)	1,796	1,330	853	1,040	211	(3,434)	1,796
Total liabilities and stockholders' equity (deficit)	$1,849	$11,071	$1,002	$1,220	$759	$(3,434)	$12,467

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UNITED RENTALS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Dollars in millions, except per share data, unless otherwise indicated)

CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME
For the Three Months Ended September 30, 2015

	Parent	URNA	Guarantor Subsidiaries	Non-Guarantor Subsidiaries Foreign	Non-Guarantor Subsidiaries SPV	Eliminations	Total
Revenues:							
Equipment rentals	$—	$1,200	$—	$126	$—	$—	$1,326
Sales of rental equipment	—	124	—	17	—	—	141
Sales of new equipment	—	32	—	6	—	—	38
Contractor supplies sales	—	18	—	3	—	—	21
Service and other revenues	—	20	—	4	—	—	24
Total revenues	—	1,394	—	156	—	—	1,550
Cost of revenues:							
Cost of equipment rentals, excluding depreciation	—	421	—	49	—	—	470
Depreciation of rental equipment	—	225	—	24	—	—	249
Cost of rental equipment sales	—	75	—	10	—	—	85
Cost of new equipment sales	—	26	—	5	—	—	31
Cost of contractor supplies sales	—	12	—	3	—	—	15
Cost of service and other revenues	—	10	—	—	—	—	10
Total cost of revenues	—	769	—	91	—	—	860
Gross profit	—	625	—	65	—	—	690
Selling, general and administrative expenses	(10)	160	2	21	5	—	178
Non-rental depreciation and amortization	4	55	1	6	—	—	66
Operating income (loss)	6	410	(3)	38	(5)	—	446
Interest (income) expense, net	(1)	106	1	—	2	(1)	107
Other (income) expense, net (1)	(275)	273	(2)	30	(27)	—	(1)
Income (loss) before provision (benefit) for income taxes	282	31	(2)	8	20	1	340
Provision (benefit) for income taxes	118	(2)	—	2	7	—	125
Income (loss) before equity in net earnings (loss) of subsidiaries	164	33	(2)	6	13	1	215
Equity in net earnings (loss) of subsidiaries	51	18	6	—	—	(75)	—
Net income (loss)	215	51	4	6	13	(74)	215
Other comprehensive (loss) income	(72)	(72)	(70)	(56)	—	198	(72)

Comprehensive income (loss)	$143	$(21)	$(66)	$(50)	$13	$124	$143

(1) Other (income) expense, net includes an adjustment to the amount of royalties Holdings receives from URNA and its subsidiaries as discussed below (see Item 2- Management's Discussion and Analysis of Financial Condition and Results of Operations- Liquidity and Capital Resources- Relationship between Holdings and URNA).

UNITED RENTALS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Dollars in millions, except per share data, unless otherwise indicated)

CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME
For the Three Months Ended September 30, 2014

	Parent	URNA	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		Eliminations	Total
				Foreign	SPV		
Revenues:							
Equipment rentals	$—	$1,155	$—	$160	$—	$—	$1,315
Sales of rental equipment	—	125	—	15	—	—	140
Sales of new equipment	—	35	—	7	—	—	42
Contractor supplies sales	—	20	—	3	—	—	23
Service and other revenues	—	20	—	4	—	—	24
Total revenues	—	1,355	—	189	—	—	1,544
Cost of revenues:							
Cost of equipment rentals, excluding depreciation	—	418	—	62	—	—	480
Depreciation of rental equipment	—	210	—	26	—	—	236
Cost of rental equipment sales	—	73	—	9	—	—	82
Cost of new equipment sales	—	27	—	6	—	—	33
Cost of contractor supplies sales	—	14	—	2	—	—	16
Cost of service and other revenues	—	8	—	1	—	—	9
Total cost of revenues	—	750	—	106	—	—	856
Gross profit	—	605	—	83	—	—	688
Selling, general and administrative expenses	40	127	—	23	4	—	194
Merger related costs	—	4	—	—	—	—	4
Restructuring charge	—	(2)	—	—	—	—	(2)
Non-rental depreciation and amortization	4	58	1	7	—	—	70
Operating (loss) income	(44)	418	(1)	53	(4)		