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UNITED RENTALS INC /DE
Form 10-K/A
October 09, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 1
on
FORM 10-K/A

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2000.

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
United Rentals, Inc.
Commission File Number 1-13663
United Rentals (North America), Inc.
(Exact Names of Registrants as Specified in Their Charters)

Delaware 06-1522496
Delaware 06-1493538
State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization Identification Nos.)

Five Greenwich Office Park,
Greenwich, Connecticut 06830
(Address of Principal Executive Offices) (Zip code)

Registrants' telephone number, including area code: (203) 622-3131

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

Title of Each Class Name of Each Exchange on
Which Registered
Common Stock, \$.01 par value, of United Rentals, Inc. New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 reporting requirements for the past 90 days. [X] Yes [] No

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information

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statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

As of October 1, 2001, there were 73,295,189 shares of United Rentals, Inc. common stock outstanding. The aggregate market value of such common stock held by non-affiliates of the registrant at October 1, 2001 was approximately \$797.2 million. Such aggregate market value was calculated by using the closing price of such common stock as of such date on the New York Stock Exchange of \$17.10. 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.

Documents incorporated by reference: Certain sections of the Proxy Statement of United Rentals, Inc. to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 within 120 days of the registrant's fiscal year are incorporated by reference into Part III of this Form 10-K.

This combined Form 10-K 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 (I)(1) (a) and (b) of Form 10-K and is therefore filing this form with the reduced disclosure format permitted by such instruction.

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PART II

Item 6. Selected Financial Data

The data presented below with respect to the Company should be read in conjunction with the Consolidated Financial Statements and related Notes thereto of the Company included elsewhere in this Report and Item 7--"Management's Discussion and Analysis of Financial Condition and Results of Operations."

During the periods presented below, the Company completed certain acquisitions that were accounted for as poolings-of-interests (including a merger in September 1998 with U.S. Rentals) and others that were accounted for as purchases. The selected financial data presented below has been restated for all periods presented to include the accounts of the businesses acquired in

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transactions accounted for as poolings-of-interests (excluding one such transaction which was not material) as if the Company and these businesses acquired were combined for all periods presented. The accounts of businesses acquired in transactions accounted for as purchases are included from their respective acquisition dates. In view of the fact that the Company's operating results for the periods presented below were impacted by acquisitions that were accounted for as purchases, the Company believes that its results of operations for the years presented are not directly comparable. See Note 3 of the Notes to the Consolidated Financial Statements of the Company included elsewhere in this Report.

Our previously outstanding Series A Perpetual Convertible Preferred Stock and Series B Perpetual Convertible Preferred Stock were exchanged for Series C Perpetual Convertible Preferred Stock and Series D Perpetual Convertible Preferred Stock, respectively. This exchange was effected subsequent to June 30, 2001. The balance sheet data under the heading "Pro Forma" adjusts the historical balance sheet data to give effect to the exchange, as if it had occurred on December 31, 2000. For additional information concerning the exchange, see note 2 to the audited consolidated financial statements of our company included herein.

| | Year Ended Dec | | |
|---|---------------------------|-----------|------------|
| | 1996 | 1997 | 1998 |
| | (dollars in thousands, ex | | |
| Income statement data: | | | |
| Total revenues..... | \$354,478 | \$489,838 | \$1,220,28 |
| Total cost of revenues..... | 241,445 | 340,546 | 796,83 |
| Gross profit..... | 113,033 | 149,292 | 423,44 |
| Selling, general and administrative expenses..... | 54,721 | 70,835 | 195,62 |
| Merger-related expenses..... | | | 47,17 |
| Non-rental depreciation and amortization..... | 9,387 | 13,424 | 35,24 |
| Termination cost of deferred compensation agreements..... | | 20,290 | |
| Operating income..... | 48,925 | 44,743 | 145,40 |
| Interest expense..... | 11,278 | 11,847 | 64,15 |
| Preferred dividends of a subsidiary trust..... | | | 7,85 |
| Other (income) expense, net..... | (499) | (2,021) | (4,90 |
| Income before provision for income taxes and extraordinary items... | 38,146 | 34,917 | 78,29 |
| Provision for income taxes..... | 420 | 29,508 | 43,49 |
| Income before extraordinary items..... | 37,726 | 5,409 | 34,79 |
| Extraordinary items, net (1)..... | | 1,511 | 21,33 |
| Net income..... | \$ 37,726 | \$ 3,898 | \$ 13,46 |
| Pro forma provision for income taxes before extraordinary items (2) | \$ 15,487 | \$ 14,176 | \$ 44,38 |
| Pro forma income before extraordinary items (2)..... | 22,659 | 20,741 | 33,91 |
| Basic earnings before extraordinary items per share..... | \$ 1.67 | \$ 0.12 | \$ 0.5 |
| Diluted earnings before extraordinary items per share..... | \$ 1.67 | \$ 0.11 | \$ 0.4 |
| Basic earnings per share (3)..... | \$ 1.67 | \$ 0.08 | \$ 0.2 |
| Diluted earnings per share (3)..... | \$ 1.67 | \$ 0.08 | \$ 0.1 |
| Other financial data: | | | |
| EBITDA (4)..... | \$123,606 | \$160,554 | \$ 403,73 |
| Depreciation and amortization..... | 74,681 | 95,521 | 211,15 |
| Dividends on common stock..... | | | |

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| | December 31 | | | |
|--|------------------------|-----------|-----------|-----------|
| | 1996 | 1997 | 1998 | 1999 |
| | (dollars in thousands) | | | |
| Balance sheet data: | | | | |
| Cash and cash equivalents..... | \$ 2,906 | \$ 72,411 | \$ 20,410 | \$ 2,906 |
| Rental equipment, net..... | 235,055 | 461,026 | 1,143,006 | 1,650,000 |
| Total assets..... | 381,228 | 826,010 | 2,634,663 | 4,490,000 |
| Total debt..... | 214,337 | 264,573 | 1,314,574 | 2,260,000 |
| Company-obligated mandatorily redeemable convertible preferred securities of a subsidiary trust..... | | | 300,000 | 300,000 |
| Series A and B preferred stock(5)..... | | | | 430,000 |
| Stockholders' equity..... | 105,420 | 446,388 | 726,230 | 960,000 |

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-
- (1)The Company recorded an extraordinary item (net of income taxes) of \$1.5 million in 1997 and an extraordinary item (net of income taxes) of \$21.3 million in 1998. Such charge in 1997 resulted from the prepayment of certain debt by U.S. Rentals. Such charge in 1998 resulted from the early extinguishment of certain debt and primarily reflected prepayment penalties on certain debt of U.S. Rentals.
 - (2)U.S. Rentals was taxed as a Subchapter S Corporation until its initial public offering in February 1997, and another company acquired in a pooling-of-interests transaction was taxed as a Subchapter S Corporation until being acquired by the Company in 1998. In general, the income or loss of a Subchapter S Corporation is passed through to its owners rather than being subjected to taxes at the entity level. Pro forma provision for income taxes before extraordinary items and pro forma income before extraordinary items reflect a provision for income taxes as if all such companies were liable for federal and state income taxes as taxable corporate entities for all periods presented.
 - (3)The Company's earnings during 1997 were impacted by \$20.3 million of expenses relating to the termination of certain deferred compensation expenses in connection with U.S. Rentals' initial public offering, a \$7.5 million charge to recognize deferred tax liabilities of U.S. Rentals and an extraordinary item (net of income taxes) of \$1.5 million. The Company's earnings during 1998 were impacted by merger-related expenses of \$47.2 million (\$33.2 million net of taxes), a \$4.8 million charge to recognize deferred tax liabilities of a company acquired in a pooling-of-interests transaction and an extraordinary item (net of income taxes) of \$21.3 million. The Company's earnings during 1999 were impacted by \$18.2 million (\$10.8 million net of taxes) of expenses incurred related to a terminated tender offer. Excluding such amounts, (i) basic earnings per share for the years ended 1997, 1998 and 1999 would have been \$0.70, \$1.10 and \$2.15, respectively, and (ii) diluted earnings per share for the years ended 1997, 1998 and 1999 would have been \$0.66, \$1.00 and \$1.65, respectively.
 - (4)EBITDA is defined as net income (excluding (i) non-operating income and expense, (ii) a \$20.3 million non-recurring charge incurred by U.S. Rentals in 1997 arising from the termination of deferred compensation agreements

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with certain executives, (iii) \$47.2 million in merger-related expenses in 1998 related to the three acquisitions accounted for as poolings-of-interests, including the merger with U.S. Rentals, and (iv) \$8.3 million of expenses that are included in selling, general and administrative expenses for 1999 and which related to a terminated tender offer), plus interest expense, income taxes and depreciation and amortization. EBITDA data is presented to provide additional information concerning the Company's ability to meet its future debt service obligations and capital expenditure and working capital requirements. However, EBITDA is not a measure of financial performance under generally accepted accounting principles. Accordingly, EBITDA should not be considered an alternative to net income or cash flows as indicators of the Company's operating performance or liquidity.

(5) We issued series A and B perpetual convertible preferred stock in 1999 and included such preferred in stockholders' equity. In July 2001, the SEC issued guidance to all public companies as to when redeemable preferred stock may be classified as stockholders' equity. Under this guidance, the series A and B preferred would not be included in stockholders' equity because this stock would be subject to mandatory redemption on a hostile change of control. On September 28, 2001, we entered into an agreement effecting the exchange of new series C and D perpetual convertible preferred for the series A and B preferred. The series C and D preferred stock is not subject to mandatory redemption on a hostile change of control, and will be included in stockholders' equity under the recent SEC guidance. The effect of the foregoing is that our perpetual convertible preferred stock is included in stockholders' equity as of September 28, 2001 and thereafter, but is outside of stockholders' equity for earlier dates. In all other respects, the financial statements remain unchanged, including total assets and liabilities, revenues, operating income, net income and earnings per share.

Item 8. Financial Statements and Supplementary Data

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Schedules other than those listed are omitted as they are not applicable or the required or equivalent information has been included in the financial statements or notes thereto.

REPORT OF INDEPENDENT AUDITORS

Board of Directors
United Rentals, Inc.

We have audited the accompanying consolidated balance sheets of United Rentals, Inc. as of December 31, 2000 and 1999 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These consolidated financial statements are the responsibility of the management of United Rentals, Inc. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of United Rentals, Inc. at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

MetroPark, New Jersey
February 23, 2001,
except for Note 2,
paragraphs 9, 10, and 11,
and Note 17 as to which
the date is September 28, 2001

UNITED RENTALS, INC.

CONSOLIDATED BALANCE SHEETS

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| | December 31 | | |
|--|---|--------------------------|----------|
| | 2000 | 2000 | 1999 |
| | Unaudited Pro Forma (See Note 2) (In thousands, except share data) | Restated (See Note 2) | |
| Assets | | | |
| Cash and cash equivalents..... | \$ 34,384 | \$ 34,384 | \$ 23, |
| Accounts receivable, net of allowance for doubtful accounts of \$55,624 and \$58,376 at 2000 and 1999, respectively..... | 469,594 | 469,594 | 434, |
| Inventory..... | 133,380 | 133,380 | 129, |
| Prepaid expenses and other assets..... | 104,493 | 104,493 | 81, |
| Rental equipment, net..... | 1,732,835 | 1,732,835 | 1,659, |
| Property and equipment, net..... | 422,239 | 422,239 | 304, |
| Goodwill, net of accumulated amortization of \$103,219 and \$49,556 at 2000 and 1999, respectively..... | 2,215,532 | 2,215,532 | 1,853, |
| Other intangible assets, net..... | 11,476 | 11,476 | 10, |
| | ===== | ===== | ===== |
| | \$5,123,933 | \$5,123,933 | \$4,497, |
| Liabilities and Stockholders' Equity | | | |
| Liabilities: | | | |
| Accounts payable..... | \$ 260,155 | \$ 260,155 | \$ 242, |
| Debt..... | 2,675,367 | 2,675,367 | 2,266, |
| Deferred taxes..... | 206,243 | 206,243 | 81, |
| Accrued expenses and other liabilities..... | 136,225 | 136,225 | 209, |
| | ----- | ----- | ----- |
| Total liabilities..... | 3,277,990 | 3,277,990 | 2,800, |
| Commitments and contingencies | | | |
| Company-obligated mandatorily redeemable convertible preferred securities of a subsidiary trust..... | 300,000 | 300,000 | 300, |
| Series A and B preferred stock..... | | 430,800 | 430, |
| Stockholders' equity: | | | |
| Preferred stock--\$.01 par value, 5,000,000 shares authorized: | | | |
| Series C perpetual convertible preferred stock--\$300,000 liquidation preference, 300,000 shares issued and outstanding..... | 3 | | |
| Series D perpetual convertible preferred stock--\$150,000 liquidation preference, 150,000 shares issued and outstanding..... | 2 | | |
| Common stock--\$.01 par value, 500,000,000 shares authorized, 71,065,707 shares issued and outstanding in 2000 and 72,051,095 shares issued and outstanding in 1999..... | 711 | 711 | |
| Additional paid-in capital..... | 1,196,324 | 765,529 | 786, |
| Retained earnings..... | 355,850 | 355,850 | 179, |
| Accumulated other comprehensive (loss) income..... | (6,947) | (6,947) | |
| | ----- | ----- | ----- |
| Total stockholders' equity..... | 1,545,943 | 1,115,143 | 966, |
| | ===== | ===== | ===== |
| | \$5,123,933 | \$5,123,933 | \$4,497, |

See accompanying notes.

UNITED RENTALS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year Ended December 31 | | |
|--|--|-------------|------------|
| | 2000 | 1999 | 1998 |
| | (in thousands, except per share amounts) | | |
| Revenues: | | | |
| Equipment rentals..... | \$2,056,683 | \$1,581,026 | \$ 895,000 |
| Sales of rental equipment..... | 347,678 | 235,678 | 119,000 |
| Sales of equipment and merchandise and other revenues..... | 514,500 | 416,924 | 205,000 |
| Total revenues..... | 2,918,861 | 2,233,628 | 1,220,000 |
| Cost of revenues: | | | |
| Cost of equipment rentals, excluding depreciation..... | 907,477 | 676,972 | 394,000 |
| Depreciation of rental equipment..... | 328,131 | 280,641 | 175,000 |
| Cost of rental equipment sales..... | 208,182 | 136,678 | 66,000 |
| Cost of equipment and merchandise sales and other operating costs..... | 386,501 | 314,419 | 160,000 |
| Total cost of revenues..... | 1,830,291 | 1,408,710 | 796,000 |
| Gross profit..... | 1,088,570 | 824,918 | 423,000 |
| Selling, general and administrative expenses..... | 454,330 | 352,595 | 195,000 |
| Merger-related expenses..... | | | 47,000 |
| Non-rental depreciation and amortization..... | 86,301 | 62,867 | 35,000 |
| Operating income..... | 547,939 | 409,456 | 145,000 |
| Interest expense..... | 228,779 | 139,828 | 64,000 |
| Preferred dividends of a subsidiary trust..... | 19,500 | 19,500 | 7,000 |
| Other (income) expense, net..... | (1,836) | 8,321 | (4,000) |
| Income before provision for income taxes and extraordinary item | 301,496 | 241,807 | 78,000 |
| Provision for income taxes..... | 125,121 | 99,141 | 43,000 |
| Income before extraordinary item..... | 176,375 | 142,666 | 34,000 |
| Extraordinary item, net of tax benefit of \$14,255..... | | | 21,000 |
| Net income..... | \$ 176,375 | \$ 142,666 | \$ 13,000 |
| Earnings per share--basic: | | | |
| Income before extraordinary item..... | \$ 2.48 | \$ 2.00 | \$ 1.10 |
| Extraordinary item, net..... | | | |
| Net income..... | \$ 2.48 | \$ 2.00 | \$ 1.10 |
| Earnings per share--diluted: | | | |
| Income before extraordinary item..... | \$ 1.89 | \$ 1.53 | \$ 0.80 |
| Extraordinary item, net..... | | | |
| Net income..... | \$ 1.89 | \$ 1.53 | \$ 0.80 |

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See accompanying notes.

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UNITED RENTALS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| | Common Stock | | |
|---|------------------------|--------|----------------------------------|
| | Number of Shares | Amount | Additional Paid-in Capital |
| | (In thousands, | | |
| Balance, December 31, 1997..... | 56,239,375 | \$562 | \$401,758 |
| Comprehensive income: | | | |
| Net income..... | | | |
| Other comprehensive income: | | | |
| Foreign currency translation adjustments..... | | | |
| Comprehensive income..... | | | |
| Issuance of common stock and warrants..... | 10,813,255 | 108 | 267,214 |
| Conversion of convertible notes..... | 30,947 | | 461 |
| Cancellation of common stock..... | (137,600) | (1) | 1 |
| Reclassification of Subchapter S accumulated earnings to paid-in-capital..... | | | 18,979 |
| Pooling-of-interests..... | 1,456,997 | 15 | (14) |
| Exercise of common stock options..... | 25,025 | | 619 |
| Subchapter S distributions of a pooled entity..... | | | |
| Balance, December 31, 1998..... | 68,427,999 | 684 | 689,018 |
| Comprehensive income: | | | |
| Net income..... | | | |
| Other comprehensive income: | | | |
| Foreign currency translation adjustments..... | | | |
| Comprehensive income..... | | | |
| Issuance of common stock..... | 2,291,568 | 23 | 64,678 |
| Exercise of common stock options..... | 1,331,528 | 14 | 32,477 |
| Balance, December 31, 1999..... | 72,051,095 | 721 | 786,173 |
| Comprehensive income: | | | |
| Net income..... | | | |
| Other comprehensive income: | | | |
| Foreign currency translation adjustments..... | | | |
| Comprehensive income..... | | | |
| Issuance of common stock..... | 773,320 | 8 | 9,867 |
| Exercise of common stock options..... | 26,307 | | 421 |
| Shares repurchased and retired..... | (1,785,015) | (18) | (30,932) |

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| | | | |
|---|------------|---|-----------|
| Balance, December 31, 2000..... | 71,065,707 | \$711 | \$765,529 |
| | ===== | ===== | ===== |
| | | Accumulated Other Comprehensive (Loss) Income ----- | |
| Balance, December 31, 1997..... | | | |
| Comprehensive income: | | | |
| Net income..... | | | |
| Other comprehensive income: | | | |
| Foreign currency translation adjustments..... | \$ | (281) | |
| Comprehensive income..... | | | |
| Issuance of common stock and warrants..... | | | |
| Conversion of convertible notes..... | | | |
| Cancellation of common stock..... | | | |
| Reclassification of Subchapter S accumulated earnings to paid-in- capital..... | | | |
| Pooling-of-interests..... | | | |
| Exercise of common stock options..... | | | |
| Subchapter S distributions of a pooled entity..... | | | |
| | | ----- | |
| Balance, December 31, 1998..... | | (281) | |
| Comprehensive income: | | | |
| Net income..... | | | |
| Other comprehensive income: | | | |
| Foreign currency translation adjustments..... | | 598 | |
| Comprehensive income..... | | | |
| Issuance of common stock..... | | | |
| Exercise of common stock options..... | | | |
| | | ----- | |
| Balance, December 31, 1999..... | | 317 | |
| Comprehensive income: | | | |
| Net income..... | | | |
| Other comprehensive income: | | | |
| Foreign currency translation adjustments..... | | (7,264) | |
| Comprehensive income..... | | | |
| Issuance of common stock..... | | | |
| Exercise of common stock options..... | | | |
| Shares repurchased and retired..... | | | |
| | | ----- | |
| Balance, December 31, 2000..... | | \$(6,947) | |
| | | ===== | |

See accompanying notes.

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UNITED RENTALS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year E | |
|---|------------|-------|
| | 2000 | |
| | ----- | ----- |
| | | (I |
| | |) |
| Cash Flows From Operating Activities: | | |
| Net income..... | \$ 176,375 | \$ |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization..... | 414,432 | |
| Gain on sales of rental equipment..... | (139,496) | |
| Gain on sales of businesses..... | (4,084) | |
| Write down of assets held for sale..... | | |
| Extraordinary item..... | | |
| Deferred taxes..... | 109,280 | |
| Changes in operating assets and liabilities: | | |
| Accounts receivable..... | 8,613 | |
| Inventory..... | 69,706 | |
| Prepaid expenses and other assets..... | (29,848) | |
| Accounts payable..... | (16,091) | |
| Accrued expenses and other liabilities..... | (76,166) | |
| | ----- | ----- |
| Net cash provided by operating activities..... | 512,721 | |
| | ----- | ----- |
| Cash Flows From Investing Activities: | | |
| Purchases of rental equipment..... | (808,204) | |
| Purchases of property and equipment..... | (153,770) | |
| Proceeds from sales of rental equipment..... | 347,678 | |
| Proceeds from sales of businesses..... | 19,246 | |
| Purchases of other companies..... | (347,337) | |
| Payments of contingent purchase price..... | (16,266) | |
| In-process acquisition costs..... | (4,285) | |
| | ----- | ----- |
| Net cash used in investing activities..... | (962,938) | (|
| | ----- | ----- |
| Cash Flows From Financing Activities: | | |
| Proceeds from issuance of common stock, net of issuance costs..... | | |
| Proceeds from the issuance of Series A and B preferred stock, net of issuance costs | | |
| Proceeds from debt..... | 456,202 | |
| Payments on debt..... | (134,599) | |
| Proceeds from sale-leaseback..... | 193,478 | |
| Proceeds from the issuance of redeemable convertible preferred securities..... | | |
| Payments of financing costs..... | (16,408) | |
| Proceeds from the exercise of common stock options..... | 331 | |
| Subchapter S distributions of a pooled entity..... | | |
| Shares repurchased and retired..... | (30,950) | |
| | ----- | ----- |
| Net cash provided by financing activities..... | 468,054 | |
| Effect of foreign exchange rates..... | (7,264) | |
| | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents..... | 10,573 | |
| Cash and cash equivalents at beginning of year..... | 23,811 | |

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| | | |
|---|-----------|-------|
| Cash and cash equivalents at end of year..... | \$ 34,384 | \$ |
| | ===== | ===== |

See accompanying notes.

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UNITED RENTALS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS--(Continued)

| | Year Ended Dec | |
|--|----------------|------------|
| | 2000 | 1999 |
| | ----- | ----- |
| | (In thousa | |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest..... | \$ 248,763 | \$ 124,28 |
| Cash paid for taxes, net of refunds..... | \$ 23,746 | \$ 17,50 |
| Supplemental schedule of non-cash investing and financing activities | | |
| The Company acquired the net assets and assumed certain liabilities of other companies as follows: | | |
| Assets, net of cash acquired..... | \$ 565,114 | \$1,468,56 |
| Liabilities assumed..... | (142,277) | (472,38 |
| Less: | | |
| Amounts paid in common stock and warrants..... | (10,000) | |
| Amounts paid through issuance of debt..... | (65,500) | (9,39 |
| Net cash paid..... | \$ 347,337 | \$ 986,79 |
| | ===== | ===== |

See accompanying notes.

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UNITED RENTALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

United Rentals, Inc. is principally a holding company ("Holdings") and conducts its operations primarily through its wholly owned subsidiary United Rentals (North America), Inc. ("URI") and subsidiaries of URI. Holdings was incorporated in July 1998 and became the parent of URI on August 5, 1998, pursuant to the reorganization of the legal structure of URI described in Note 9. Prior to such reorganization, the name of URI was United Rentals, Inc. References herein to the "Company" refer to Holdings and its subsidiaries, with

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respect to periods following the reorganization, and to URI and its subsidiaries, with respect to periods prior to the reorganization. As a result of the reorganization, Holdings' primary asset is its sole ownership of all issued and outstanding shares of common stock of URI. URI's various credit agreements and debt instruments place restrictions on its ability to transfer funds to its shareholder.

The Company rents a broad array of equipment to a diverse customer base that includes construction industry participants, industrial companies, homeowners and others in the United States, Canada and Mexico. The Company also engages in related activities such as selling rental equipment, acting as a distributor for certain new equipment and selling related merchandise and parts. The nature of the Company's business is such that short-term obligations are typically met by cash flow generated from long-term assets. Therefore, the accompanying balance sheets are presented on an unclassified basis.

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, giving retroactive effect for the reorganization for all periods presented. All significant intercompany accounts and transactions have been eliminated. The accompanying consolidated financial statements for the year ended December 31, 1998 include the accounts of certain acquisitions completed in 1998 that were accounted for as pooling-of-interests, as described in Note 3.

2. Summary of Significant Accounting Policies

Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

Inventory

Inventory consists of equipment, tools, parts, fuel and related supply items. Inventory is stated at the lower of cost or market and is net of a reserve for obsolescence and shrinkage of \$15.5 million and \$16.8 million at December 31, 2000 and 1999, respectively. Cost is determined on either a weighted average or first-in, first-out method.

Rental Equipment

Rental equipment is recorded at cost and depreciated over the estimated useful lives of the equipment using the straight-line method. The range of estimated useful lives for rental equipment is two to ten years. Rental equipment is depreciated to a salvage value of zero to ten percent of cost. Ordinary repair and maintenance costs are charged to operations as incurred.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Property and Equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method. The range of estimated useful lives for property and equipment is two to thirty-nine years. Ordinary repair and maintenance costs are charged to operations as incurred. Leasehold

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improvements are amortized using the straight-line method over their estimated useful lives or the remaining life of the lease, whichever is shorter.

Intangible Assets

Intangible assets consist of the excess of cost over the fair value of identifiable net assets of businesses acquired and non-compete agreements. The non-compete agreements are being amortized on a straight-line basis for a period ranging from three to eight years. The remaining intangible assets are being amortized on a straight-line basis over forty years.

Long-Lived Assets

Long-lived assets are recorded at the lower of amortized cost or fair value. As part of an ongoing review of the valuation of long-lived assets, the Company assesses the carrying value of such assets if facts and circumstances suggest they may be impaired. If this review indicates that the carrying value of these assets may not be recoverable, as determined by a nondiscounted cash flow analysis over the remaining useful life, the carrying value would be reduced to its estimated fair value. There have been no material impairments recognized in these financial statements.

Derivative Financial Instruments

Derivative financial instruments, which are periodically used by the Company in the management of its interest rate and foreign currency exposures, are accounted for on an accrual basis. Income and expense are recorded in the same category as that arising from the related asset or liability. The fair value of these agreements are not recognized in the financial statements. Derivative financial instruments are not used for trading purposes.

Fair Value of Financial Instruments

The carrying amounts reported in the balance sheets for accounts receivable, accounts payable, accrued expenses and other liabilities approximate fair value due to the immediate to short-term maturity of these financial instruments. The fair values of the Credit Facility, Term Loan B, Term Loan C, Term Loan D, receivables securitization and certain other debt are determined using current interest rates for similar instruments as of December 31, 2000 and 1999 and approximate the carrying value of these financial instruments due to the fact that the underlying instruments include provisions to adjust interest rates to approximate fair market value. The estimated fair value of the Company's other financial instruments at December 31, 2000 and 1999 are based upon available market information and are as follows:

| | 2000 | | 1999 | |
|--|-----------------|------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (In thousands) | | | |
| Redeemable convertible preferred securities..... | \$300,000 | \$133,125 | \$300,000 | \$192,375 |
| Series A and B preferred..... | 430,800 | 228,480 | 430,800 | 291,210 |
| Senior subordinated notes..... | 951,153 | 702,500 | 950,653 | 906,400 |
| Other debt..... | 94,086 | 94,086 | 73,745 | 73,745 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Preferred Stock

The Company issued Series A Perpetual Convertible Preferred Stock ("Series A Preferred") and Series B Perpetual Convertible Preferred Stock ("Series B Preferred") in 1999 and included such preferred in stockholders' equity. In July 2001, the SEC issued guidance to all public companies as to when redeemable preferred stock may be classified as stockholders' equity. This guidance indicates that preferred stock that would be subject to redemption on the occurrence of an event outside the control of the issuer may not be classified as equity and that the probability of the event occurring is not a factor to be considered. Under this guidance, the Series A Preferred and Series B Preferred would not be included in stockholders' equity because this stock would be subject to mandatory redemption on a hostile change of control. On September 28, 2001, the Company entered into an agreement effecting the exchange of new Series C Perpetual Convertible Preferred Stock ("Series C Preferred") for the Series A Preferred and new Series D Perpetual Convertible Preferred Stock ("Series D Preferred") for the Series B Preferred (see note 17). The Series C Preferred and Series D Preferred stock is not subject to mandatory redemption on a hostile change of control, and will be classified as stockholders' equity under the recently issued SEC guidance.

The effect of the foregoing is that the Company's perpetual convertible preferred stock will be classified as stockholders' equity as of September 28, 2001 and thereafter, but will be classified outside of stockholders' equity for earlier dates. Accordingly, the Company has restated the accompanying balance sheets to show its \$430.8 million of perpetual convertible preferred stock under "Series A and B Preferred Stock" rather than under "Stockholders' Equity." The Company has also made a corresponding change to the related Consolidated Statements of Stockholders' Equity. In all other respects, the financial statements remain unchanged, including total assets and liabilities, revenues, operating income, net income and earnings per share. The Company's balance sheets for dates after September 28, 2001, will include the perpetual convertible preferred stock in stockholders' equity.

The pro forma amounts on the accompanying balance sheet gives effect to the above-referenced exchange, as if it had occurred on December 31, 2000.

Revenue Recognition

Revenue related to the sale of equipment and merchandise is recognized at the time of delivery to, or pick-up by, the customer. Revenue related to rental equipment is recognized over the contract term.

Advertising Expense

The Company advertises primarily through trade publications and yellow pages. Advertising costs are expensed as incurred and totaled \$23.8 million, \$19.0 million and \$13.5 million for the years ended December 31, 2000, 1999 and 1998, respectively.

Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the differences between financial statement and tax bases of assets and liabilities

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and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Recognition of deferred tax assets is limited to amounts considered by management to be more likely than not realized in future periods.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash investments and accounts receivable. The Company maintains cash and cash equivalents with high quality financial institutions.

Concentration of credit risk with respect to accounts receivable are limited because a large number of geographically diverse customers make up the Company's customer base. No single customer represents greater than 10% of total accounts receivable. The Company controls credit risk through credit approvals, credit limits, and monitoring procedures.

Stock-Based Compensation

The Company accounts for its stock based compensation arrangements under the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees". Since stock options are granted by the Company with exercise prices at or greater than the fair value of the shares at the date of grant, no compensation expense is recognized.

Insurance

The Company is insured for general liability, workers' compensation, and group medical claims up to a specified claim and aggregate amounts (subject to a deductible of one million dollars). Insured losses subject to this deductible are accrued based upon the aggregate liability for reported claims incurred and an estimated liability for claims incurred but not reported. These liabilities are not discounted.

Impact of Recently Issued Accounting Standards

In June 1999, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 137, "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No. 133". This standard delays the effective date of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", for one year, to fiscal years beginning after June 15, 2000. SFAS No. 133 establishes a new model for accounting for derivatives and hedging activities. The adoption of SFAS No. 133 on January 1, 2001 is not expected to have a material effect on

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the Company's consolidated financial position or results of operations.

In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities". This standard amends SFAS No. 133 and addresses a limited number of issues causing implementation difficulties. The Company will adopt SFAS No. 138 on January 1, 2001 and it is not expected to have a material effect on the Company's consolidated financial position or results of operations.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities--a replacement of FASB Statement No. 125". This standard revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures. This standard is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001 and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. The adoption of SFAS No. 140 is not expected to have a material effect on the Company's consolidated financial position or results of operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Reclassifications

Certain prior year balances have been reclassified to conform to the 2000 presentation.

3. Acquisitions

Acquisitions Accounted for as Poolings-of-Interests

On August 24, 1998, the Company issued 2,744,368 shares of its common stock for all of the outstanding shares of common stock of Rental Tools.

On September 24, 1998, the Company issued 1,456,997 shares of its common stock for all of the outstanding shares of common stock of Wynne Systems, Inc. This transaction was accounted for as a pooling-of-interests; however, this transaction was not material to the Company's consolidated operations and financial position and, therefore, the Company's financial statements have not been restated for this transaction but have been combined beginning July 1, 1998.

On September 29, 1998, a merger (the "Merger") of United Rentals, Inc. and U.S. Rentals was completed. The Merger was effected by having a wholly owned subsidiary of United Rentals, Inc. merge with and into U.S. Rentals. Following the Merger, United Rentals, Inc. contributed the capital stock of U.S. Rentals to URI, a wholly owned subsidiary of United Rentals, Inc. Pursuant to the Merger, each outstanding share of common stock of U.S. Rentals was converted into the right to receive 0.9625 of a share of common stock of United Rentals, Inc. An aggregate of approximately 29.6 million shares of United Rentals, Inc. common stock were issued in the Merger in exchange for the outstanding shares of U.S. Rentals common stock.

The table below shows the separate revenue and net income (loss) of the Company prior to the above mergers ("United"), U.S. Rentals and Rental Tools

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for periods prior to combination:

| United | U.S. Rentals | Rental Tools | Combined |
|----------------|-----------------|-----------------|----------|
| (In thousands) | | | |

For the nine months ended September 30, 1998:

| | | | | |
|------------------------|-----------|-----------|----------|-----------|
| Revenues..... | \$311,919 | \$451,101 | \$41,242 | \$804,262 |
| Net income (loss)..... | (53,178) | 43,670 | 4,695 | (4,813) |

Acquisitions Accounted for as Purchases

The acquisitions completed during the years ended December 31, 2000, 1999 and 1998 include 53, 102 and 81 acquisitions, respectively, that were accounted for as purchases. The results of operations of the businesses acquired in these acquisitions have been included in the Company's results of operations from their respective acquisition dates.

During 2000, the Company purchased the outstanding stock and certain assets of (i) Liddell Brothers Inc., in February, (ii) Safety Lites Sales and Leasing, Inc., in March, (iii) Durante Equipment Corp., Inc., in June, (iv) Horizon High Reach, Inc., in September, and (v) Wiese Planning & Engineering Inc., in December. The aggregate initial consideration paid for these five acquisitions that were accounted for as purchases was approximately \$153.1 million and consisted of \$83.8 million in cash and 761,905 shares of common stock and \$59.3 million in seller notes. In addition, the Company repaid or assumed outstanding indebtedness of these companies acquired in the aggregate amount of approximately \$5.5 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The aggregate initial consideration paid by the Company for other 2000 acquisitions that were accounted for as purchases was \$210.2 million and consisted of approximately \$184.6 million in cash and \$6.2 million in seller notes. In addition, the Company repaid or assumed outstanding indebtedness of the companies acquired in the other 2000 acquisitions in the aggregate amount of \$77.5 million.

During 1999, the Company purchased the outstanding stock and certain assets of (i) National Equipment Finance Company, in June, (ii) Mi-Jack Products, Inc. and related entities, in May, (iii) Elmen Rent All, Inc., in June (iv) Forte, Inc., in March, and (v) Arayco, Inc. in June. The aggregate initial consideration paid for these five acquisitions that were accounted for as purchases was approximately \$275.4 million and consisted of \$270.4 million in cash and \$5.0 million in seller notes. In addition, the Company repaid or assumed outstanding indebtedness of these companies acquired in the aggregate amount of approximately \$99.8 million.

The aggregate initial consideration paid by the Company for other 1999 acquisitions accounted for as purchases was \$663.6 million and consisted of approximately \$659.2 million in cash and \$4.4 million in seller notes. In

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addition, the Company repaid or assumed outstanding indebtedness of the companies acquired in the other 1999 acquisitions in the aggregate amount of approximately \$239.3 million.

In January 1998 the Company purchased the outstanding stock and certain assets of (i) Access Rentals, Inc. and Affiliate, (ii) the BNR Group of Companies and (iii) Mission Valley Rentals, Inc. The aggregate initial consideration paid by the Company for these three acquisitions that were accounted for as purchases was \$88.7 million and consisted of approximately \$81.4 million in cash and 370,231 shares of common stock and warrants to purchase an aggregate of 30,000 shares of the Company's common stock. In addition, the Company repaid or assumed outstanding indebtedness of these three companies acquired in the aggregate amount of \$64.0 million.

Also during 1998, the Company purchased the outstanding stock and certain assets of (i) Power Rental Co., Inc., in June (ii) Equipment Supply Co., Inc. and Affiliates in June and (iii) McClinch Inc. and Subsidiaries and McClinch Equipment Services, Inc. in September. The aggregate initial consideration paid by the Company for these three acquisitions that were accounted for as purchases was \$298.4 million and consisted of approximately \$278.0 million in cash and 496,063 shares of common stock. In addition, the Company repaid or assumed outstanding indebtedness of these three companies acquired in the aggregate amount of \$155.4 million.

The aggregate initial consideration paid by the Company for other 1998 acquisitions that were accounted for as purchases was \$550.4 million and consisted of approximately \$507.3 million in cash and 1,083,997 shares of common stock, and seller notes of \$10.5 million. In addition, the Company repaid or assumed outstanding indebtedness of the other companies acquired in 1998 in the aggregate amount of \$211.8 million.

The purchase prices for all acquisitions accounted for as purchases have been allocated to the assets acquired and liabilities assumed based on their respective fair values at their respective acquisition dates. However, the Company has not completed its valuation of all of its purchases and, accordingly, the purchase price allocations are subject to change when additional information concerning asset and liability valuations are completed. The preliminary purchase price allocations that are subject to change primarily consists of rental and non-rental equipment valuations. These allocations are finalized within 12 months of the acquisition date and are not expected to result in significant differences between the preliminary and final allocations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The following table summarizes, on an unaudited pro forma basis, the combined results of operations of the Company for the years ended December 31, 2000 and 1999 as though each acquisition described above was made on January 1, for each of the periods.

| 2000 | 1999 |
|-------|-------|
| ----- | ----- |

(In thousands, except

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per share data)

| | | |
|----------------------------|-------------|-------------|
| Revenues..... | \$3,095,872 | \$2,956,543 |
| Net income..... | 182,342 | 154,084 |
| Basic earnings per share.. | \$ 2.54 | \$ 2.14 |
| | ===== | ===== |
| Diluted earnings per share | \$ 1.94 | \$ 1.64 |
| | ===== | ===== |

The unaudited pro forma results are based upon certain assumptions and estimates which are subject to change. These results are not necessarily indicative of the actual results of operations that might have occurred, nor are they necessarily indicative of expected results in the future.

Merger-Related Expenses, Extraordinary Item and Other Costs

The results of operations for the year ended December 31, 1999 include pre-tax expenses related to a terminated tender offer totaling approximately \$18.2 million (\$10.8 million after tax), primarily consisting of \$8.3 million in professional fees recorded in selling, general and administrative expense and \$9.9 million in financing commitment fees recorded in other (income) expense, net.

The results of operations for the year ended December 31, 1998, include pre-tax expenses related to three acquisitions accounted for as poolings-of-interests totaling approximately \$47.2 million (\$33.2 million after-tax), consisting of (i) \$18.5 million for investment banking, legal, accounting services and other merger costs, (ii) \$14.5 million of expenses relating to the closing of duplicate facilities, (iii) \$8.2 million for employee severance and related matters, (iv) \$2.1 million for the write down of computer systems acquired through the U.S. Rentals merger and one of the other acquisitions accounted for as a pooling-of-interests and (v) \$3.9 million in other expenses.

The Company recorded a pre-tax extraordinary item of \$35.6 million (\$21.3 million after-tax) in 1998. The charge related to the early extinguishment of debt primarily related to the Merger with U.S. Rentals.

4. Rental Equipment

Rental equipment consists of the following:

| | December 31 | |
|-------------------------------|----------------|-------------|
| | 2000 | 1999 |
| | ----- | |
| | (In thousands) | |
| Rental equipment..... | \$2,281,994 | \$2,098,624 |
| Less accumulated depreciation | (549,159) | (438,891) |
| | ----- | ----- |
| Rental equipment, net..... | \$1,732,835 | \$1,659,733 |
| | ----- | ----- |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

5. Property and Equipment

Property and equipment consist of the following:

| | December 31 | |
|--|----------------|-----------|
| | 2000 | 1999 |
| | (In thousands) | |
| Land..... | \$ 53,612 | \$ 50,143 |
| Buildings..... | 104,925 | 91,934 |
| Transportation equipment..... | 228,265 | 139,944 |
| Machinery and equipment..... | 36,587 | 31,484 |
| Furniture and fixtures..... | 56,109 | 46,507 |
| Leasehold improvements..... | 48,952 | 26,387 |
| | 528,450 | 386,399 |
| Less accumulated depreciation and amortization | (106,211) | (81,492) |
| Property and equipment, net..... | \$ 422,239 | \$304,907 |

6. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

| | December 31 | |
|------------------------|----------------|-----------|
| | 2000 | 1999 |
| | (In thousands) | |
| Accrued profit sharing | \$ 39,485 | \$ 39,052 |
| Accrued insurance..... | 15,428 | 22,738 |
| Accrued interest..... | 36,993 | 37,477 |
| Other..... | 44,319 | 110,662 |
| | \$136,225 | \$209,929 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

7. Debt

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Debt consists of the following:

| | December 31 | |
|---|----------------|-------------|
| | 2000 | 1999 |
| | (In thousands) | |
| Credit Facility, interest payable at a weighted average rate of 7.8% and 6.9% at December 31, 2000 and 1999, respectively..... | \$ 337,000 | \$ 243,000 |
| Term Loan B, interest payable at 8.89% and 8.71% at December 31, 2000 and 1999, respectively..... | 246,875 | 248,750 |
| Term Loan C, interest payable at 9.26% and 8.96% at December 31, 2000 and 1999, respectively..... | 748,125 | 750,000 |
| Term Loan D, interest payable at a weighted average rate of 9.18% at December 31, 2000..... | 198,128 | |
| Senior Subordinated Notes, interest payable semi-annually, (9 1/2% at December 31, 2000 and 1999)..... | 200,000 | 200,000 |
| Senior Subordinated Notes, interest payable semi-annually, (8.80% at December 31, 2000 and 1999)..... | 201,153 | 200,653 |
| Senior Subordinated Notes, interest payable semi-annually, (9 1/4% at December 31, 2000 and 1999)..... | 300,000 | 300,000 |
| Senior Subordinated Notes, interest payable semi-annually, (9% at December 31, 2000 and 1999)..... | 250,000 | 250,000 |
| Receivables securitization, interest payable at 7.44% at December 31, 2000..... | 100,000 | |
| Other debt, interest payable at various rates ranging from 4% to 11% and 6% to 12.3% at December 31, 2000 and 1999, respectively, due through 2007..... | 94,086 | 73,745 |
| | \$2,675,367 | \$2,266,148 |

Credit Facility. The Company has a credit facility (the "Credit Facility") which enables URI to borrow up to \$827.5 million on a revolving basis and permits a Canadian subsidiary of URI (the "Canadian Subsidiary") to directly borrow up to \$40.0 million under the Credit Facility (provided that the aggregate borrowings of URI and the Canadian Subsidiary do not exceed \$827.5 million). Up to \$50.0 million (\$1.4 million outstanding at December 31, 2000) of the Credit Facility is available in the form of letters of credit. The agreement governing the Credit Facility requires that the aggregate commitment shall be reduced on the last day of each calendar quarter, beginning September 30, 2001 and continuing through June 30, 2003, by an amount equal to \$20.7 million. The Credit Facility terminates on September 26, 2003, at which time all outstanding indebtedness is due.

Borrowings by URI under the Credit Facility accrue interest at URI's option, at either (a) the Base Rate (which is equal to the greater of (i) the Federal Funds Rate plus 0.5% or (ii) Bank of America's reference rate) or (b) the Eurodollar Rate (which for borrowings by URI is equal to Bank of America's reserve adjusted eurodollar rate) plus a margin ranging from 1.200% to 1.875% per annum. Borrowings by the Canadian Subsidiary under the Credit Facility accrue interest, at such subsidiary's option, at either (x) the Prime Rate (which is equal to Bank of America Canada's prime rate), (y) the BA Rate (which is equal to Bank of America Canada's BA Rate) plus a margin ranging from 1.200% to 1.875% per annum or (z) the Eurodollar Rate (which for borrowing by the

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Canadian Subsidiary is equal to Bank of America Canada's reserve adjusted Eurodollar Rate) plus a margin ranging from 1.200% to 1.875% per annum. If at any time an event of default (as defined in the agreement governing the Credit

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Facility) exists, the interest rate applicable to each loan will increase by 2% per annum. The Company is also required to pay the banks an annual facility fee equal to 0.375% of the banks' \$827.5 million aggregate lending commitment under the Credit Facility (which fee may be reduced to 0.300% for periods during which the Company maintains a specified funded debt to cash flow ratio).

The obligations of URI under the Credit Facility are (i) secured by substantially all of its assets, the stock of its United States subsidiaries and a portion of the stock of URI's Canadian subsidiaries and (ii) guaranteed by Holdings and secured by the stock of URI. The obligations of the Canadian Subsidiary under the Credit Facility are guaranteed by URI and secured by substantially all of the assets of the Canadian Subsidiary and the stock of the subsidiaries of the Canadian Subsidiary.

The Credit Facility contains certain covenants that require the Company to, among other things, satisfy certain financial tests relating to: (a) maximum leverage, (b) the ratio of senior debt to cash flow, (c) minimum interest coverage ratio, (d) the ratio of funded debt to cash flow, and (e) the ratio of senior debt to tangible assets. The agreements governing the Credit Facility also contain various other covenants that restrict the Company's ability to, among other things, (i) incur additional indebtedness, (ii) permit liens to attach to its assets, (iii) pay dividends or make other restricted payments on its common stock and certain other securities and (iv) make acquisitions unless certain financial conditions are satisfied. In addition, the agreement governing the Credit Facility (a) requires the Company to maintain certain financial ratios and (b) provides that failure by any two of certain of the Company's executive officers to continue to hold executive positions with the Company for a period of 30 consecutive days constitutes an event of default unless replacement officers satisfactory to the lenders are appointed.

Term Loan B. URI obtained a \$250.0 million term loan (the "Term Loan B") from a group of financial institutions. The Term Loan B matures on June 30, 2005. Prior to maturity, quarterly installments of principal in the amount of \$0.6 million are due on the last day of each calendar quarter, commencing September 30, 1999. The amount due at maturity is \$235.6 million. The Term Loan B accrues interest, at URI's option, at either (a) the Base Rate (as defined above with respect to the Credit Facility) plus a margin of 0.375% per annum, or (b) the Eurodollar Rate (as defined above with respect to the Credit Facility for borrowings by the Company) plus a margin of 2.25% per annum. The Term Loan B is secured pari passu with the Credit Facility and the agreement governing the Term Loan B contains restrictive covenants substantially similar to those provided under the Credit Facility.

Term Loan C. URI obtained a \$750.0 million term loan from a group of financial institutions (the "Term Loan C"). The Term Loan C matures in June 2006. Prior to maturity, quarterly installments of principal in the amount of \$1.9 million are due on the last day of each calendar quarter, commencing September 30, 2000. The amount due at maturity is \$706.3 million. The Term Loan C accrues interest, at URI's option, at either (a) the Base Rate (as defined above with respect to the Credit Facility) plus a margin of 0.625% per annum,

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or (b) the Eurodollar Rate (as defined above with respect to the Credit Facility) plus a margin of 2.50% per annum. The Term Loan C is secured pari passu with the Credit Facility and the agreement governing the Term Loan C contains restrictive covenants substantially similar to those provided under the Credit Facility.

Term Loan D. URI obtained a \$200.0 million term loan from a financial institution (the "Term Loan D"). The Term Loan D matures in June 2006. Prior to maturity, quarterly installments of principal are due on the last day of each calendar quarter, in the amount of \$0.25 million on September 30, 2000 and in the amount of \$0.5 million commencing December 31, 2000 to maturity. The amount due at maturity is \$188.5 million. The Term Loan D accrues interest, at URI's option, at either (a) the Base Rate (as defined above with respect to the Credit Facility) plus a margin of 0.625% per annum, or (b) the Eurodollar Rate (as defined above with respect to the Credit Facility) plus a margin of 2.5% per

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annum. The Term Loan D is secured pari passu with the Credit Facility, and the agreement governing the Term Loan D contains restrictive covenants substantially similar to those provided under the Credit Facility.

At December 31, 2000, the Company had interest rate protection in the form of swap agreements with an aggregate notional amount of \$200.0 million. The effect of these agreements is to limit the interest rate exposure to 8.75% on \$200.0 million of Term Loan B. The overall weighted average interest rate on the Term Loan B was 8.80% at December 31, 2000. While it is not the Company's intention to terminate the interest rate swap agreements, the fair values were estimated by obtaining quotes from brokers which represented the amounts that the Company would receive or pay if the agreements were terminated. These fair values indicated that termination of the agreements at December 31, 2000, would have resulted in a pretax loss of \$4.3 million.

9 1/2% Senior Subordinated Notes. URI issued \$200.0 million aggregate principal amount of 9 1/2% senior subordinated notes, (the "9 1/2 Notes") which are due June 1, 2008. The 9 1/2% Notes are unsecured. URI may, at its option, redeem the 9 1/2% Notes on or after June 1, 2003 at specified redemption prices which range from 104.75% in 2003 to 100.0% in 2006 and thereafter. In addition, on or prior to June 1, 2001, URI may, at its option, use the proceeds of a public equity offering to redeem up to 35% of the outstanding 9 1/2% Notes, at a redemption price of 109.5%. The indenture governing the 9 1/2% Notes contains certain restrictive covenants, including (i) limitations on additional indebtedness, (ii) limitations on restricted payments, (iii) limitations on liens, (iv) limitations on dividends and other payment restrictions, (v) limitations on preferred stock of certain subsidiaries, (vi) limitations on transactions with affiliates, (vii) limitations on the disposition of proceeds of asset sales and (viii) limitations on the ability of the Company to consolidate, merge or sell all or substantially all of its assets.

8.80% Senior Subordinated Notes. URI issued \$205.0 million aggregate principal amount of 8.80% senior subordinated notes, (the "8.80% Notes") which are due August 15, 2008. The 8.80% Notes are unsecured. URI may, at its option, redeem the 8.80% Notes on or after August 15, 2003 at specified redemption prices which range from 104.4% in 2003 to 100.0% in 2006 and thereafter. In addition, on or prior to August 15, 2001, URI may, at its option, use the

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proceeds of a public equity offering to redeem up to 35% of the outstanding 8.80% Notes, at a redemption price of 108.8%. The indenture governing the 8.80% Notes contains restrictions substantially similar to those applicable to the 9 1/2% Notes.

9 1/4% Senior Subordinated Notes. URI issued \$300.0 million aggregate principal amount of 9 1/4% senior subordinated notes, (the "9 1/4% Notes") which are due January 15, 2009. The 9 1/4% Notes are unsecured. URI may, at its option, redeem the 9 1/4% Notes on or after January 15, 2004 at specified redemption prices which range from 104.625% in 2004 to 100.0% in 2007 and thereafter. In addition, on or prior to January 15, 2002, URI may, at its option, use the proceeds of a public equity offering to redeem up to 35% of the outstanding 9 1/4% Notes, at a redemption price of 109.25%. The indenture governing the 9 1/4% Notes contains restrictions substantially similar to those applicable to the 9 1/2% Notes.

9% Senior Subordinated Notes. URI issued \$250.0 million aggregate principal amount of 9% senior subordinated notes, (the "9% Notes") which are due April 1, 2009. The 9% Notes are unsecured. URI may, at its option, redeem the 9% Notes on or after April 1, 2004 at specified redemption prices which range from 104.5% in 2004 to 100.0% in 2007 and thereafter. In addition, on or prior to April 1, 2002, URI may, at its option, use the proceeds of a public equity offering to redeem up to 35% of the outstanding 9% Notes, at a redemption price of 109.0%. The indenture governing the 9% Notes contains restrictions substantially similar to those applicable to the 9 1/2% Notes.

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UNITED RENTALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Receivables Securitization. In December 2000, the Company obtained \$100.0 million through the securitization of certain of its accounts receivable. In the securitization, the Company transferred \$203.0 million of its accounts receivable to a special purpose subsidiary (the "SPV") which in turn pledged those receivables to secure \$100.0 million of borrowings that the SPV incurred to finance its acquisition of those receivables from the Company. These borrowings accrue interest at Credit Lyonnais' blended commercial paper rate plus a margin of 0.75% per annum. These borrowings are an obligation of the SPV and not of Holdings or URI, and the lenders' recourse in respect of the borrowings is generally limited to collections that the SPV receives on the receivables. Collections on the receivables are used to service the borrowings. Subject to certain conditions, collections from the receivables may also be used by the SPV from time to time until December 2003 to acquire additional accounts receivables from the Company that the SPV will pledge to the lenders to secure the borrowings.

Maturities of the Company's debt for each of the next five years at December 31, 2000 are as follows (In thousands):

| | | |
|------------|----|-----------|
| 2001..... | \$ | 33,787 |
| 2002..... | | 29,512 |
| 2003..... | | 464,498 |
| 2004..... | | 33,984 |
| 2005..... | | 250,043 |
| Thereafter | | 1,863,543 |

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8. Income Taxes

The provision for historical federal and state income taxes is as follows:

| | Year ended December 31 | | |
|---------------------|------------------------|----------|----------|
| | 2000 | 1999 | 1998 |
| | ----- | | |
| | (In thousands) | | |
| Historical: | | | |
| Domestic federal: | | | |
| Current..... | \$ 10,419 | \$39,643 | \$14,291 |
| Deferred..... | 97,756 | 37,598 | 21,047 |
| | ----- | ----- | ----- |
| | 108,175 | 77,241 | 35,338 |
| Domestic state: | | | |
| Current..... | 3,587 | 10,405 | 1,067 |
| Deferred..... | 6,815 | 3,437 | 7,020 |
| | ----- | ----- | ----- |
| | 10,402 | 13,842 | 8,087 |
| Total domestic..... | ----- | ----- | ----- |
| | 118,577 | 91,083 | 43,425 |
| Foreign federal: | | | |
| Current..... | 1,061 | 4,917 | 519 |
| Deferred..... | 3,590 | 465 | (492) |
| | ----- | ----- | ----- |
| | 4,651 | 5,382 | 27 |
| Foreign provincial: | | | |
| Current..... | 774 | 2,356 | 277 |
| Deferred..... | 1,119 | 320 | (230) |
| | ----- | ----- | ----- |
| | 1,893 | 2,676 | 47 |
| Total foreign..... | ----- | ----- | ----- |
| | 6,544 | 8,058 | 74 |
| | ----- | ----- | ----- |
| | \$125,121 | \$99,141 | \$43,499 |
| | ===== | ===== | ===== |

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UNITED RENTALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

A reconciliation of the provision for income taxes and the amount computed by applying the statutory federal income tax rate of 35% to income before provision for income taxes is as follows:

| | Year ended December 31 | | |
|--|------------------------|------|------|
| | 2000 | 1999 | 1998 |
| | ----- | | |

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| | ----- (In thousands) | | |
|---|-------------------------|----------|----------|
| Computed tax rate at statutory tax rate..... | \$105,524 | \$84,632 | \$27,404 |
| State income taxes, net of federal tax benefit..... | 6,762 | 8,997 | 4,177 |
| Non-deductible expenses..... | 9,992 | 6,265 | 7,400 |
| Provision for deferred taxes of Subchapter S Corporation at time of pooling..... | | | 4,750 |
| Other..... | 2,843 | (753) | (232) |
| | \$125,121 | \$99,141 | \$43,499 |
| | ===== | ===== | ===== |

The components of deferred income tax assets (liabilities) are as follows:

| | December 31 | |
|---|-------------------------|---------------|
| | ----- 2000 | ----- 1999 |
| | ----- (In thousands) | |
| Property and equipment..... | \$ (298,058) | \$ (175,180) |
| Intangibles..... | (32,518) | (13,188) |
| Reserves and allowances..... | 37,460 | 48,577 |
| Net operating loss and credit carryforwards | 84,257 | 56,266 |
| Other..... | 2,616 | 2,296 |
| | \$ (206,243) | \$ (81,229) |
| | ===== | ===== |

The current and deferred tax assets and liabilities at December 31, 2000 include the effects of certain reclassifications related to differences between the income tax provisions and tax returns for prior years. These reclassifications had no effect on net income.

For financial reporting purposes, income before income taxes and extraordinary items for the Company's foreign subsidiaries was \$15.6 million and \$19.9 million for the years ended December 31, 2000 and 1999, respectively. At December 31, 2000 and 1999, unremitted earnings of foreign subsidiaries were approximately \$22.9 million and \$13.8 million, respectively. Since it is the Company's intention to indefinitely reinvest these earnings, no United States taxes have been provided. Determination of the amount of unrecognized deferred tax liability on these unremitted taxes is not practicable.

The Company has net operating loss carryforwards ("NOL's") of \$138.2 million for federal income tax purposes that expire through 2018.

9. Holding Company Reorganization

URI was formerly named United Rentals, Inc. On August 5, 1998, a reorganization was effected pursuant to which (i) URI became a wholly owned subsidiary of Holdings, a newly formed holding company, (ii) the name of URI was changed from United Rentals, Inc. to United Rentals (North America), Inc., (iii) the name of the new holding company became United Rentals, Inc., (iv) the outstanding common stock of URI was automatically converted, on a share-for-share basis, into common stock of Holdings and (v) the common stock of Holdings commenced trading on the New York Stock Exchange under the symbol

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"URI" instead of the common stock of URI. The purpose of the reorganization was to facilitate certain financings. The business operations of the Company did not

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UNITED RENTALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

change as a result of the new legal structure. The stockholders of Holdings have the same rights, privileges and interests with respect to Holdings as they had with respect to URI immediately prior to the reorganization.

10. Company-Obligated Mandatorily Redeemable Convertible Preferred Securities of a Subsidiary Trust and Series A and B Preferred Stock

Trust Securities. In August 1998, a subsidiary trust (the "Trust") of Holdings issued and sold in a private offering (the "Preferred Securities Offering") \$300.0 million of 30 year, 6 1/2% Convertible Quarterly Income Preferred Securities (the "Preferred Securities"). The net proceeds from the Preferred Securities Offering were approximately \$290.0 million. The Trust used the proceeds from the Preferred Securities Offering to purchase 6 1/2% convertible subordinated debentures due 2028 (the "Debentures") from Holdings which resulted in Holdings receiving all of the net proceeds of the Preferred Securities Offering. Holdings in turn contributed the net proceeds of the Preferred Securities Offering to URI. The Preferred Securities are non-voting securities, carry a liquidation value of \$50 per security and are convertible into the Company's common stock at an initial rate of 1.146 shares per security (equivalent to an initial conversion price of \$43.63 per share). They are convertible at any time at the holders' option and are redeemable, at the Company's option, after three years, subject to certain conditions.

Holders of the Preferred Securities are entitled to preferential cumulative cash distributions from the Trust at an annual rate of 6 1/2% of the liquidation value, accruing from the original issue date and payable quarterly in arrears beginning February 1, 1999. The distribution rate and dates correspond to the interest rate and payments dates on the Debentures. Holdings may defer interest payments on the Debentures for up to twenty consecutive quarters, but not beyond the maturity date of the Debentures. If interest payments on the Debentures are deferred, so are the payments on the Preferred Securities. Under this circumstance, Holdings will be prohibited from paying dividends on any of its capital stock or making payments with respect to its debt that rank *pari passu* with or junior to the Debentures.

Holdings has executed a guarantee with regard to payment of the Preferred Securities to the extent that the Trust has sufficient funds to make the required payments.

Series A Preferred. On January 7, 1999, Holdings sold 300,000 shares of its Series A Preferred. Subject to certain thresholds related to the aggregate number of shares issuable upon conversion of Series A Preferred, the holders of the Series A Preferred, voting separately as a single class, have the right, on an as-converted basis, to elect up to two directors. Currently, holders of the Series A Preferred may elect two directors. Except for the election of directors, the holders of the Series A Preferred have the same voting rights as those belonging to holders of Holdings common stock. The net proceeds from the sale of the Series A Preferred were approximately \$287.0 million. Holdings contributed such net proceeds to URI. The Series A Preferred is convertible into 12,000,000 shares of Holdings common stock at \$25 per share based upon a

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liquidation preference of \$1,000 per share of Series A Preferred, subject to adjustment. The Series A Preferred has no stated dividend. However, in the event Holdings declares or pays any dividends on, or distributions of, its common stock, it must (subject to certain exceptions) also declare and pay to the holders of Series A Preferred the dividends and distributions which would have been declared and paid upon conversion of the Series A Preferred. See note 2 for additional information on the Series A Preferred.

Series B Preferred. On September 30, 1999, Holdings sold 150,000 shares of its Series B Preferred. The Series B Preferred is divided into two classes designated as Class B-1 and Class B-2. Other than voting rights, the classes are substantially the same. The holders of the 105,252 shares of Class B-1 are entitled to the same voting rights, on an as-converted basis, as those belonging

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UNITED RENTALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

to holders of Holdings common stock. The holders of the 44,748 shares of Class B-2 have no such voting rights. The net proceeds from the sale of the Series B Preferred were approximately \$143.8 million. Holdings contributed such net proceeds to URI. The Series B Preferred is convertible into 5,000,000 shares of Holding's common stock at \$30 per share based upon a liquidation preference of \$1,000 per share of Series B Preferred, subject to adjustment. The Series B Preferred has no stated dividend. However, in the event Holdings declares or pays any dividends on, or distributions of, its common stock, it must (subject to certain exceptions) also declare and pay to the holders of Series B Preferred the dividends and distributions which would have been declared and paid upon conversion of the Series B Preferred. See note 2 for additional information on the Series B Preferred.

11. Capital Stock

Warrants. As of December 31, 2000 there are outstanding warrants to purchase an aggregate of 7,094,296 shares of common stock. The weighted average exercise price of the warrants is \$11.76 per share. All warrants are currently exercisable and may be exercised at any time through 2009.

Common Stock. On March 9, 1999, Holdings completed a public offering of 2,290,000 shares of common stock. The net proceeds to the Company from this offering were approximately \$64.7 million (after deducting underwriting discounts and offering expenses). Holdings contributed such net proceeds to URI. During 2000, the Company approved a share repurchase program to acquire up to \$200 million of its issued and outstanding common stock. Share repurchases under the program may be made from time to time, continuing through May 2002. During 2000, the Company repurchased and retired 1,785,015 shares of common stock.

1997 Stock Option Plan. The Company's 1997 Stock Option Plan provides for the granting of options to purchase not more than an aggregate of 5,000,000 shares of common stock. Some or all of such options may be "incentive stock options" within the meaning of the Internal Revenue Code. All officers, directors and employees of the Company and other persons who perform services on behalf of the Company are eligible to participate in this plan. Each option granted pursuant to this plan must provide for an exercise price per share that is at least equal to the fair market value per share of common stock on the date of grant. No options may be granted under this plan after August 31, 2007.

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As of December 31, 2000 and 1999, options to purchase an aggregate of 4,950,536 shares and 4,731,183 shares of common stock, respectively, were outstanding under this plan. The exercise price of each option, the period during which each option may be exercised and other terms and conditions of each option are determined by the Board of Directors (or by a committee appointed by the Board of Directors).

1998 Stock Option Plan. The Company's 1998 Stock Option Plan provides for the granting of options to purchase not more than an aggregate of 4,200,000 shares of common stock. Some or all of the options issued under the 1998 Stock Option Plan may be "incentive stock options" within the meaning of the Internal Revenue Code. All officers and directors of the Company and its subsidiaries are eligible to participate in the 1998 Stock Option Plan. Each option granted pursuant to the 1998 Stock Option Plan must provide for an exercise price per share that is at least equal to the fair market value per share of common stock on the date of grant. No options may be granted under the 1998 Stock Option Plan after August 20, 2008. As of December 31, 2000 and 1999, options to purchase an aggregate of 4,200,000 shares of common stock were outstanding pursuant to this plan to executive officers and directors. The exercise price of each option, the period during which each option may be exercised and other terms and conditions of each option are determined by the Board of Directors (or by a committee appointed by the Board of Directors).

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UNITED RENTALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

1998 Supplemental Stock Option Plan. The Company has adopted a stock option plan pursuant to which options, for up to an aggregate of 5,600,000 shares of common stock, may be granted to employees who are not officers or directors and to consultants and independent contractors who perform services for the Company or its subsidiaries. As of December 31, 2000 and 1999, options to purchase an aggregate of 5,373,509 shares and 4,140,384 shares of common stock, respectively, were outstanding pursuant to this plan. The exercise price of each option, the period during which each option may be exercised and other terms and conditions of each option are determined by the Board of Directors (or by a committee appointed by the Board of Directors).

1997 Performance Award Plan. Effective February 20, 1997, U.S. Rentals adopted the 1997 Performance Award Plan under which stock options and other awards could be granted to key employees and directors at prices and terms established by U.S. Rentals at the date of grant. The options expire in 2007. As a result of the Merger, all outstanding options to purchase shares of U.S. Rentals common stock became fully vested and were converted into options to purchase the Company's common stock. As of December 31, 2000 and 1999, options to purchase an aggregate of 2,572,050 shares and 2,581,675 shares of common stock, respectively, were outstanding pursuant to this plan.

A summary of the transactions within the Company's stock option plans follows:

| | Weighted Average Exercise Price |
|--------|--|
| Shares | |

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| | | |
|----------------------------------|-------------|---------|
| Outstanding at January 1, 1998.. | 4,825,699 | \$19.52 |
| Granted..... | 9,453,718 | 19.78 |
| Exercised..... | (25,025) | 20.78 |
| Canceled..... | (209,578) | 22.94 |
| Outstanding at December 31, 1998 | 14,044,814 | 19.60 |
| Granted..... | 3,092,462 | 26.77 |
| Exercised..... | (1,331,528) | 20.74 |
| Canceled..... | (152,506) | 26.70 |
| Outstanding at December 31, 1999 | 15,653,242 | 20.86 |
| Granted..... | 1,921,125 | 16.56 |
| Exercised..... | (26,307) | 16.91 |
| Canceled..... | (451,965) | 27.03 |
| Outstanding at December 31, 2000 | 17,096,095 | \$20.23 |
| Exercisable at December 31, 2000 | 11,906,938 | \$19.58 |

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|--------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
| | Amount Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Amount Exercisable | Weighted Average Exercise Price |
| \$10.00 - \$15.00..... | 4,722,077 | 7.7 years | \$12.38 | 4,317,980 | \$12.30 |
| 15.01 - 20.00..... | 1,995,359 | 9.0 years | 16.79 | 293,787 | 18.72 |
| 20.01 - 25.00..... | 7,146,663 | 7.1 years | 21.77 | 5,543,191 | 21.64 |
| 25.01 - 30.00..... | 1,821,230 | 8.2 years | 27.33 | 888,666 | 27.27 |
| 30.01 - 50.00..... | 1,410,766 | 7.4 years | 34.67 | 863,314 | 35.08 |
| | 17,096,095. | 7.6 years | 20.23 | 11,906,938 | 19.58 |

UNITED RENTALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees" in accounting for stock-based employee compensation arrangements whereby no compensation cost related to stock options is deducted in determining net income. Had compensation cost for the Company's stock option plans been determined pursuant to SFAS No. 123, "Accounting for Stock-Based Compensation", the Company's net income and earnings per share would have differed. The weighted average fair value of options granted was \$7.70, \$10.99

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and \$11.94 during 2000, 1999 and 1998, respectively. The fair value is estimated on the date of grant using the Black-Scholes option pricing model which uses subjective assumptions which can materially affect fair value estimates and, therefore, does not necessarily provide a single measure of fair value of options. Using the Black-Scholes option pricing model and a risk-free interest rate average of 5.15%, 6.29% and 4.6% in 2000, 1999 and 1998, respectively, a volatility factor for the market price of the Company's common stock of 69%, 52% and 85% in 2000, 1999 and 1998, respectively, and a weighted-average expected life of options of approximately three years in 2000, 1999 and 1998, the Company's net income (loss), basic earnings (loss) per share and diluted earnings (loss) per share would have been \$156.4 million, \$2.20 and \$1.69, respectively, for the year ended December 31, 2000, \$104.3 million, \$1.46 and \$1.12, respectively, for the year ended December 31, 1999, and \$(13.3 million), \$(0.20) and \$(0.20), respectively, for the year ended December 31, 1998. For purposes of these pro forma disclosures, the estimated fair value of options is amortized over the options' vesting period. Since the number of options granted and their fair value may vary significantly from year to year, the pro forma compensation expense in future years may be materially different.

At December 31, 2000 there are (i) 7,094,296 shares of common stock reserved for the exercise of warrants, (ii) 17,338,256 shares of common stock reserved for issuance pursuant to options granted and that may be granted in the future under the Company's stock option plans, (iii) 6,875,580 shares of common stock reserved for the issuance of outstanding preferred securities of a subsidiary trust, (iv) 17,000,000 shares of common stock reserved for the issuance of Series A and Series B preferred stock and (v) 232,586 shares of common stock reserved for the conversion of convertible debt.

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UNITED RENTALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

12. Earnings Per Share

The following table sets forth the computation of historical basic and diluted earnings per share:

| | Year Ended December 31 | | |
|---|---|------------|------------|
| | 2000 | 1999 | 1998 |
| | (In thousands, except share and per share data) | | |
| Numerator: | | | |
| Income before extraordinary item..... | \$ 176,375 | \$ 142,666 | \$ 34,798 |
| Plus: preferred dividends of a subsidiary trust, net of taxes..... | 11,406 | | |
| Income available to common stockholders.... | \$ 187,781 | \$ 142,666 | \$ 34,798 |
| Denominator: | | | |
| Denominator for basic earnings per share—weighted-average shares..... | 71,069,174 | 71,353,127 | 66,225,492 |
| Effect of dilutive securities: | | | |

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| | | | |
|--|------------|------------|------------|
| Employee stock options..... | 1,517,015 | 4,651,237 | 2,641,194 |
| Warrants..... | 2,791,387 | 3,978,536 | 4,208,434 |
| Series A Preferred..... | 12,000,000 | 11,802,740 | |
| Series B Preferred..... | 5,000,000 | 1,250,000 | |
| Company-obligated mandatorily redeemable convertible preferred securities of a subsidiary trust..... | 6,876,003 | | |
| | ----- | ----- | ----- |
| Denominator for dilutive earnings per share- adjusted weighted-average shares..... | 99,253,579 | 93,035,640 | 73,075,120 |
| | ===== | ===== | ===== |
| Earnings per share-basic: | | | |
| Income before extraordinary item..... | \$ 2.48 | \$ 2.00 | \$ 0.53 |
| Extraordinary item, net..... | | | 0.33 |
| | ----- | ----- | ----- |
| Net income..... | \$ 2.48 | \$ 2.00 | \$ 0.20 |
| | ===== | ===== | ===== |
| Earnings per share-diluted: | | | |
| Income before extraordinary item..... | \$ 1.89 | \$ 1.53 | \$ 0.48 |
| Extraordinary item, net..... | | | 0.30 |
| | ----- | ----- | ----- |
| Net income..... | \$ 1.89 | \$ 1.53 | \$ 0.18 |
| | ===== | ===== | ===== |

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UNITED RENTALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

13. Commitments and Contingencies

Operating Leases

The Company leases rental equipment, real estate and certain office equipment under operating leases. Certain real estate leases require the Company to pay maintenance, insurance, taxes and certain other expenses in addition to the stated rentals. Future minimum lease payments, by year and in the aggregate, for noncancellable operating leases with initial or remaining terms of one year or more are as follows at December 31, 2000:

| | Real Estate Leases | Rental Equipment Leases | Other Equipment Leases |
|------------|--------------------------|-------------------------------|------------------------------|
| | ----- | ----- | ----- |
| | (In thousands) | | |
| 2001..... | \$ 51,815 | \$ 98,158 | \$17,318 |
| 2002..... | 46,464 | 93,864 | 15,372 |
| 2003..... | 42,739 | 77,597 | 12,076 |
| 2004..... | 39,706 | 55,889 | 10,827 |
| 2005..... | 34,153 | 43,352 | 2,487 |
| Thereafter | 108,175 | 34,830 | |
| | ----- | ----- | ----- |
| | \$323,052 | \$403,690 | \$58,080 |
| | ===== | ===== | ===== |

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The Company was the seller-lessee in sale-leaseback transactions in 2000 where it sold rental equipment for aggregate proceeds of \$218.8 million, in 1999 where it sold rental equipment for aggregate proceeds of \$88.0 million and in 1998 where it sold rental equipment for aggregate proceeds of \$35.0 million. For the 2000 transactions, the Company agreed to lease back the rental equipment over periods ranging from eight months to five years. In connection with the 2000 transactions, the Company recognized a gain of approximately \$12.5 million with respect to sale-leaseback transactions where the term of the lease is for a minor portion of the remaining useful life of the equipment sold and recorded deferred gains of approximately \$4.0 million with respect to sale-leaseback transactions where the term of the lease is for all or more than a minor part of the remaining useful life of the equipment sold. For the 1999 transaction, the Company agreed to lease back the rental equipment over a five year period beginning December 1999, which represented more than a minor part of the remaining useful life, and will recognize a deferred gain of approximately \$6.3 million over the five year period. For the 1998 transaction, the Company agreed to lease back the rental equipment over a five year period beginning December 1998, which represented more than a minor part of the remaining useful life, and will recognize a deferred gain on the sale of approximately \$0.6 million over the five year period. The future payments under these leases are included in the table above.

Rent expense under non-cancelable operating leases totaled \$137.3 million, \$65.5 million and \$20.5 million for the years ended December 31, 2000, 1999 and 1998, respectively. The Company's real estate leases provide for varying terms and include 24 leases that are on a month-to-month basis and 42 leases that provide for a remaining term of less than one year and do not provide a renewal option.

Employee Benefit Plans

The Company currently sponsors one defined contribution 401(k) retirement plan which is subject to the provisions of ERISA. The Company also sponsors a deferred profit sharing plan for the benefit of

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UNITED RENTALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

the full time employees of its Canadian subsidiaries. Under these plans, the Company matches a percentage of the participants contributions up to a specified amount. Company contributions to the plans were \$6.2 million, \$4.6 million and \$1.0 million for the years ended December 31, 2000, 1999 and 1998, respectively.

Legal Matters

The Company is party to legal proceedings and potential claims arising in the ordinary course of its business. In the opinion of management, the Company has adequate legal defenses, reserves, or insurance coverage with respect to these matters so that the ultimate resolution will not have a material adverse effect on the Company's financial position, results of operations, or cash flows. The Company had accrued \$7.6 million and \$13.7 million at December 31, 2000 and 1999, respectively, to cover the uninsured portion of possible costs arising from these pending claims and other potential unasserted claims.

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Environmental Matters

The Company and its operations are subject to various laws and related regulations governing environmental matters. Under such laws, an owner or lessee of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances located on or in, or emanating from, such property, as well as investigation of property damage. The Company incurs ongoing expenses associated with the removal of underground storage tanks and the performance of appropriate remediation at certain of its locations. The Company believes that such removal and remediation will not have a material adverse effect on the Company's financial position, results of operations, or cash flows.

14. Segment Information

Each of the Company's branch locations is an operating segment which consists of the rental and sales of equipment and related merchandise and parts. Certain of the Company's branches also provide speciality traffic control services as a product line and the amount of revenue attributable to such services was \$245.0 million and \$79.3 million during the years ended December 31, 2000 and 1999, respectively. All of the Company's branches have been aggregated into one reportable segment because they offer similar products and services in similar markets and the factors determining strategic decisions are comparable.

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UNITED RENTALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The Company operates in the United States, Canada and Mexico. Revenues are attributable to countries based upon the location of the customers. Geographic area information for the years ended December 31, 2000, 1999 and 1998 is as follows:

| | Year ended December 31 | | |
|---|------------------------|-------------|-------------|
| | 2000 | 1999 | 1998 |
| | (In thousands) | | |
| Revenues from external customers | | | |
| Domestic..... | \$2,753,266 | \$2,086,808 | \$1,168,071 |
| Foreign..... | 165,595 | 146,820 | 52,211 |
| | ----- | ----- | ----- |
| Total revenues from external customers..... | \$2,918,861 | \$2,233,628 | \$1,220,282 |
| | ===== | ===== | ===== |
| Rental equipment, net | | | |
| Domestic..... | \$1,604,191 | \$1,537,199 | \$1,099,539 |
| Foreign..... | 128,644 | 122,534 | 43,467 |
| | ----- | ----- | ----- |
| Total consolidated rental equipment, net..... | \$1,732,835 | \$1,659,733 | \$1,143,006 |
| | ===== | ===== | ===== |
| Property and equipment, net | | | |

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| | | | |
|--|-------------|-------------|------------|
| Domestic..... | \$ 405,873 | \$ 285,456 | \$ 180,777 |
| Foreign..... | 16,366 | 19,451 | 4,734 |
| | ----- | ----- | ----- |
| Total consolidated property and equipment, net | \$ 422,239 | \$ 304,907 | \$ 185,511 |
| | ===== | ===== | ===== |
| Intangible assets, net | | | |
| Domestic..... | \$2,092,882 | \$1,740,326 | \$ 867,090 |
| Foreign..... | 134,126 | 123,046 | 54,975 |
| | ----- | ----- | ----- |
| Total consolidated intangible assets, net..... | \$2,227,008 | \$1,863,372 | \$ 922,065 |
| | ===== | ===== | ===== |

15. Quarterly Financial Information (Unaudited)

Selected Financial Data

The following table of quarterly financial information has been prepared from unaudited financial statements of the Company, and reflects adjustments which are, in the opinion of management, necessary for a fair presentation of the interim periods presented.

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---------------------------------------|------------------|-------------------|------------------|-------------------|
| | ----- | ----- | ----- | ----- |
| (In thousands, except per share data) | | | | |
| For the year ended December 31, 2000: | | | | |
| Total revenues..... | \$578,962 | \$729,946 | \$859,033 | \$750,920 |
| Gross profit..... | 205,984 | 271,798 | 340,704 | 270,084 |
| Net income..... | 17,411 | 47,199 | 75,391 | 36,374 |
| Basic earnings per share..... | \$ 0.24 | \$ 0.66 | \$ 1.07 | \$ 0.51 |
| Diluted earnings per share..... | 0.19 | 0.51 | 0.79 | 0.40 |
| For the year ended December 31, 1999: | | | | |
| Total revenues..... | \$392,309 | \$503,662 | \$668,618 | \$669,039 |
| Gross profit..... | 133,991 | 184,064 | 256,979 | 249,884 |
| Net income..... | 16,225 | 25,886 | 56,208 | 44,347 |
| Basic earnings per share..... | \$ 0.24 | \$ 0.36 | \$ 0.78 | \$ 0.62 |
| Diluted earning per share..... | 0.18 | 0.28 | 0.60 | 0.48 |

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UNITED RENTALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

16. Condensed Consolidating Financial Information of Guarantor Subsidiaries

Certain indebtedness of URI, a wholly owned subsidiary of Holdings (the "Parent"), is guaranteed by URI's United States subsidiaries (the "guarantor subsidiaries") and, in certain cases, also by Parent. However, this indebtedness is not guaranteed by URI's foreign subsidiaries (the "non-guarantor subsidiaries"). The guarantor subsidiaries are all wholly-owned and the guarantees are made on a joint and several basis and are full and

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unconditional (subject to subordination provisions and subject 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). 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 as of December 31, 2000 and 1999, and for each of the three years in the period ended December 31, 2000, are presented. The condensed consolidating financial information of the Company and its subsidiaries are as follows:

CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2000

| | Parent | URI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Other and Eliminations |
|---|---------------------|---------------------|---------------------------|-------------------------------|---------------------------|
| (In thousands) | | | | | |
| Assets | | | | | |
| Cash and cash equivalents..... | | | \$ 29,733 | \$ 4,651 | |
| Accounts receivable, net..... | | \$ 216,444 | 143,295 | 109,855 | |
| Intercompany receivable (payable)..... | | 319,423 | (55,187) | (264,236) | |
| Inventory..... | | 54,022 | 73,979 | 5,379 | |
| Prepaid expenses and other assets..... | | 28,263 | 75,633 | 597 | |
| Rental equipment, net..... | | 837,972 | 766,219 | 128,644 | |
| Property and equipment, net.... | \$ 34,807 | 139,871 | 231,195 | 16,366 | |
| Investment in subsidiaries..... | 1,839,952 | 2,257,692 | | | \$ (4,097,644) |
| Intangible assets, net..... | | 960,444 | 1,132,438 | 134,126 | |
| | <u>\$ 1,874,759</u> | <u>\$ 4,814,131</u> | <u>\$ 2,397,305</u> | <u>\$ 135,382</u> | <u>\$ (4,097,644)</u> |
| Liabilities and Stockholder's Equity | | | | | |
| Liabilities: | | | | | |
| Accounts payable..... | | \$ 78,623 | \$ 165,677 | \$ 15,855 | |
| Debt..... | \$ 300,000 | 2,647,144 | 3,484 | 24,739 | \$ (300,000) |
| Deferred taxes..... | | 186,091 | 20,702 | (550) | |
| Accrued expenses and other liabilities..... | 28,816 | 86,560 | 18,862 | 13,750 | (11,763) |
| Total liabilities..... | 328,816 | 2,998,418 | 208,725 | 53,794 | (311,763) |
| Commitments and contingencies | | | | | |
| Company-obligated mandatorily redeemable convertible preferred securities of a subsidiary trust..... | | | | | 300,000 |
| Series A and B preferred stock. | 430,800 | | | | |
| Stockholder's equity: | | | | | |
| Common stock..... | 711 | | | | |
| Additional paid-in capital.. | 765,529 | 1,488,238 | 1,830,500 | 65,657 | (3,384,395) |
| Retained earnings..... | 355,850 | 327,475 | 358,080 | 22,878 | (708,433) |
| Accumulated other comprehensive loss..... | (6,947) | | | (6,947) | 6,947 |

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| | | | | | |
|---------------------------------|--------------------|--------------------|--------------------|------------------|-----------------------|
| Total stockholder's equity..... | 1,115,143 | 1,815,713 | 2,188,580 | 81,588 | \$ (4,085,881) |
| | <u>\$1,874,759</u> | <u>\$4,814,131</u> | <u>\$2,397,305</u> | <u>\$135,382</u> | <u>\$ (4,097,644)</u> |

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UNITED RENTALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

CONDENSED CONSOLIDATING BALANCE SHEET

| | December 31, 1999 | | | | | |
|--|--------------------|--------------------|------------------------|----------------------------|------------------------|------------|
| | Parent | URI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Other and Eliminations | Con |
| | (In thousands) | | | | | |
| Assets | | | | | | |
| Cash and cash equivalents..... | | \$ 3,689 | \$ 16,414 | \$ 3,708 | | \$ |
| Accounts receivable, net..... | | 200,419 | 199,981 | 34,585 | | |
| Intercompany receivable (payable)..... | | 142,156 | 42,906 | (185,062) | | |
| Inventory..... | | 56,086 | 64,253 | 9,134 | | |
| Prepaid expenses and other assets..... | \$ 31,554 | 1,020 | 18,296 | 17,809 | \$ 12,778 | |
| Rental equipment, net..... | | 747,232 | 789,967 | 122,534 | | 1 |
| Property and equipment, net.... | 28,383 | 150,841 | 106,232 | 19,451 | | |
| Investment in subsidiaries..... | 1,702,802 | 2,072,115 | | | (3,774,917) | |
| Intangible assets, net..... | | 792,198 | 948,128 | 123,046 | | 1 |
| | <u>\$1,762,739</u> | <u>\$4,165,756</u> | <u>\$2,186,177</u> | <u>\$ 145,205</u> | <u>\$ (3,762,139)</u> | <u>\$4</u> |
| Liabilities and Stockholder's Equity | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable..... | \$ 30,381 | \$ 71,995 | \$ 120,511 | \$ 20,059 | | \$ |
| Debt..... | 300,000 | 2,231,923 | 380 | 33,845 | \$ (300,000) | 2 |
| Deferred income taxes..... | | 80,476 | | 753 | | |
| Accrued expenses and other liabilities..... | 34,872 | 107,828 | 53,177 | 10,802 | 3,250 | |
| Total liabilities..... | 365,253 | 2,492,222 | 174,068 | 65,459 | (296,750) | 2 |
| Commitments and contingencies | | | | | | |
| Company-obligated mandatorily redeemable convertible preferred securities of a subsidiary trust..... | | | | | 300,000 | |
| Series A and B preferred stock. | 430,800 | | | | | |
| Stockholder's equity: | | | | | | |

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| | | | | | |
|---|-------------|-------------|-------------|------------|---------------|
| Common stock..... | 721 | | | | |
| Additional paid-in capital.. | 786,173 | 1,487,907 | 1,830,182 | 65,644 | \$(3,383,733) |
| Retained earnings..... | 179,475 | 185,627 | 181,927 | 13,785 | (381,339) |
| Accumulated other comprehensive income..... | 317 | | | 317 | (317) |
| Total stockholder's equity..... | 966,686 | 1,673,534 | 2,012,109 | 79,746 | (3,765,389) |
| | \$1,762,739 | \$4,165,756 | \$2,186,177 | \$ 145,205 | \$(3,762,139) |
| | ===== | ===== | ===== | ===== | ===== |

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UNITED RENTALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Year Ended December 31, 2000

| | Parent | URI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Other and Eliminations |
|--|----------------|------------|------------------------|----------------------------|------------------------|
| | ----- | ----- | ----- | ----- | ----- |
| | (In thousands) | | | | |
| Revenues: | | | | | |
| Equipment rentals..... | | \$ 851,541 | \$1,094,613 | \$ 110,529 | |
| Sales of rental equipment..... | | 145,519 | 178,576 | 23,583 | |
| Sales of equipment and merchandise and other revenues..... | | 253,798 | 229,219 | 31,483 | |
| Total revenues..... | | 1,250,858 | 1,502,408 | 165,595 | |
| Cost of revenues: | | | | | |
| Cost of equipment rentals, excluding depreciation..... | | 364,047 | 494,350 | 49,080 | |
| Depreciation of rental equipment..... | | 152,640 | 155,239 | 20,252 | |
| Cost of rental equipment sales.. | | 87,161 | 106,617 | 14,404 | |
| Cost of equipment and merchandise sales and other operating costs..... | | 197,190 | 164,186 | 25,125 | |
| Total cost of revenues..... | | 801,038 | 920,392 | 108,861 | |
| Gross profit..... | | 449,820 | 582,016 | 56,734 | |
| Selling, general and administrative expenses..... | | 184,135 | 245,431 | 24,764 | |
| Non-rental depreciation and amortization..... | \$ 7,718 | 33,692 | 39,618 | 5,273 | |
| Operating income (loss)..... | (7,718) | 231,993 | 296,967 | 26,697 | |
| Interest expense..... | 19,500 | 217,904 | 135 | 10,740 | \$(19,500) |
| Preferred dividends of a subsidiary trust..... | | | | | 19,500 |
| Other (income) expense, net..... | | 2,129 | (4,285) | 320 | |

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| | | | | | |
|------------------------------------|-----------|------------|------------|----------|--------------|
| | | | | | |
| Income (loss) before provision | | | | | |
| (benefit) for income taxes..... | (27,218) | 11,960 | 301,117 | 15,637 | |
| Provision (benefit) for income | | | | | |
| taxes..... | (11,295) | 4,908 | 124,964 | 6,544 | |
| Income (loss) before equity in net | | | | | |
| earnings of subsidiaries..... | (15,923) | 7,052 | 176,153 | 9,093 | |
| Equity in net earnings of | | | | | |
| subsidiaries..... | 192,298 | 185,246 | | | \$ (377,544) |
| Net income..... | \$176,375 | \$ 192,298 | \$ 176,153 | \$ 9,093 | \$ (377,544) |
| | ===== | ===== | ===== | ===== | ===== |

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UNITED RENTALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Year Ended December 31, 1999

| | Parent | URI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Other and Eliminati |
|---------------------------------------|---------------|-----------|---------------------------|-------------------------------|------------------------|
| | | | | | |
| | (In thousand) | | | | |
| Revenues: | | | | | |
| Equipment rentals..... | | \$600,431 | \$ 880,182 | \$100,413 | |
| Sales of rental equipment..... | | 113,982 | 106,737 | 14,959 | |
| Sales of equipment and merchandise | | | | | |
| and other revenues..... | | 195,647 | 189,829 | 31,448 | |
| Total revenues..... | | 910,060 | 1,176,748 | 146,820 | |
| Cost of revenues: | | | | | |
| Cost of equipment rentals, excluding | | | | | |
| depreciation..... | | 250,959 | 381,718 | 44,295 | |
| Depreciation of rental equipment..... | | 116,385 | 146,622 | 17,634 | |
| Cost of rental equipment sales..... | | 62,972 | 64,945 | 8,761 | |
| Cost of equipment and merchandise | | | | | |
| sales and other operating costs..... | | 161,902 | 128,328 | 24,189 | |
| Total cost of revenues..... | | 592,218 | 721,613 | 94,879 | |
| Gross profit..... | | 317,842 | 455,135 | 51,941 | |
| Selling, general and administrative | | | | | |
| expenses..... | \$ 8,267 | 144,341 | 177,456 | 22,531 | |
| Non-rental depreciation and | | | | | |
| amortization..... | 4,926 | 29,667 | 24,617 | 3,657 | |
| Operating income (loss)..... | (13,193) | 143,834 | 253,062 | 25,753 | |
| Interest expense..... | 19,500 | 132,929 | 1,428 | 5,471 | \$ (19,500) |
| Preferred dividends of a subsidiary | | | | | |
| trust..... | | | | | 19,500 |

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| | | | | | |
|---|-----------|-----------|------------|-----------|-------------|
| Other (income) expense, net..... | 9,689 | (1,549) | (524) | 427 | 27 |
| Income (loss) before provision (benefit) for income taxes..... | (42,382) | 12,454 | 252,158 | 19,855 | (27) |
| Provision (benefit) for income taxes.... | (17,487) | 3,039 | 105,531 | 8,058 | |
| Income (loss) before equity in net earnings of subsidiaries..... | (24,895) | 9,415 | 146,627 | 11,797 | (27) |
| Equity in net earnings of subsidiaries.. | 167,561 | 158,424 | | | (325,98) |
| Net income..... | \$142,666 | \$167,839 | \$ 146,627 | \$ 11,797 | \$ (326,26) |

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UNITED RENTALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Year Ended December 31, 1998

| | Parent | URI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Other an Eliminati |
|--|----------------|-----------|---------------------------|-------------------------------|-----------------------|
| | (In thousands) | | | | |
| Revenues: | | | | | |
| Equipment rentals..... | | \$213,823 | \$649,508 | \$32,135 | |
| Sales of rental equipment..... | | 17,992 | 96,739 | 4,889 | |
| Sales of equipment and merchandise and other revenues..... | | 58,582 | 131,427 | 15,187 | |
| Total revenues..... | | 290,397 | 877,674 | 52,211 | |
| Cost of revenues: | | | | | |
| Cost of equipment rentals, excluding depreciation..... | | 91,100 | 289,892 | 13,758 | |
| Depreciation of rental equipment..... | | 45,602 | 125,810 | 4,498 | |
| Cost of rental equipment sales..... | | 8,586 | 54,805 | 2,745 | |
| Cost of equipment and merchandise sales and other operating costs..... | | 49,754 | 98,332 | 11,952 | |
| Total cost of revenues..... | | 195,042 | 568,839 | 32,953 | |
| Gross profit..... | | 95,355 | 308,835 | 19,258 | |
| Selling, general and administrative expenses..... | | 31,092 | 155,512 | 9,016 | |
| Merger-related expenses..... | | | 47,178 | | |
| Non-rental depreciation and amortization..... | \$ 561 | 8,682 | 24,769 | 1,233 | \$ |
| Operating income (loss)..... | (561) | 55,581 | 81,376 | 9,009 | (|
| Interest expense..... | 7,854 | 33,006 | 24,193 | 6,958 | (7,85 |
| Preferred dividends of a subsidiary trust | | | | | 7,85 |
| Other (income) expense, net..... | | (2,481) | (2,605) | (11) | 19 |

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| | | | | | |
|---|----------|-----------|----------|----------|------------|
| Income (loss) before provision (benefit) for income taxes and extraordinary item..... | (8,415) | 25,056 | 59,788 | 2,062 | (19) |
| Provision (benefit) for income taxes..... | (3,472) | 13,850 | 33,047 | 74 | |
| Income (loss) before extraordinary item and equity in net earnings of subsidiaries..... | (4,943) | 11,206 | 26,741 | 1,988 | (19) |
| Extraordinary item, net..... | | | 21,337 | | |
| Income (loss) before equity in net earnings of subsidiaries..... | (4,943) | 11,206 | 5,404 | 1,988 | (19) |
| Equity in net earnings of subsidiaries... | 18,404 | 7,392 | | | (25,79) |
| Net income..... | \$13,461 | \$ 18,598 | \$ 5,404 | \$ 1,988 | \$ (25,99) |

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UNITED RENTALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

CONDENSED CONSOLIDATING CASH FLOW INFORMATION
For the Year Ended December 31, 2000

| | Parent | URI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Other Elimina |
|--|-------------|------------|------------------------|----------------------------|---------------|
| (In thousands) | | | | | |
| Net cash provided by (used in) operating activities..... | \$ (37,379) | \$ 243,759 | \$ 227,855 | \$ 43,066 | \$ 35, |
| Cash Flows From Investing Activities: | | | | | |
| Purchases of rental equipment..... | | (489,259) | (283,488) | (35,457) | |
| Purchases of property and equipment... | (13,071) | (34,477) | (102,510) | (3,712) | |
| Proceeds from sales of rental equipment..... | | 145,519 | 178,576 | 23,583 | |
| Proceeds from sale of businesses..... | | 16,246 | 3,000 | | |
| Payments of contingent purchase price..... | | (3,030) | (13,236) | | |
| Purchases of other companies..... | | (337,257) | | (10,080) | |
| Capital contributed to subsidiary..... | (331) | | | | |
| In-process acquisition costs..... | | | | | (4, |
| Net cash used in investing activities..... | (13,402) | (702,258) | (217,658) | (25,666) | (3, |
| Cash Flows from Financing Activities: | | | | | |
| Shares repurchased and retired..... | | | | | (30, |
| Dividend distributions to Parent..... | | (50,450) | | | 50, |
| Proceeds from debt..... | | 452,912 | 3,290 | | |
| Repayments of debt..... | | (125,238) | (168) | (9,193) | |
| Proceeds from sale-leaseback..... | | 193,478 | | | |
| Payments of financing costs..... | | (16,223) | | | (|
| Capital contributions by parent..... | | 331 | | | (|

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| | | | | | |
|--|-----------|------------|-----------|-----------|----------|
| Proceeds from the exercise of stock options..... | 331 | | | | |
| Proceeds from dividends from subsidiary..... | 50,450 | | | | (50,000) |
| | ----- | ----- | ----- | ----- | ----- |
| Net cash provided by financing activities..... | 50,781 | 454,810 | 3,122 | (9,193) | (31,000) |
| Effect of foreign exchange rates..... | | | | (7,264) | |
| | ----- | ----- | ----- | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents..... | | (3,689) | 13,319 | 943 | |
| Cash and cash equivalents at beginning of period..... | | 3,689 | 16,414 | 3,708 | |
| | ----- | ----- | ----- | ----- | ----- |
| Cash and cash equivalents at end of period..... | | \$ | \$ 29,733 | \$ 4,651 | |
| | ===== | ===== | ===== | ===== | ===== |
| Supplemental disclosure of cash flow information: | | | | | |
| Cash paid for interest..... | \$ 19,500 | \$ 218,346 | \$ 135 | \$ 10,782 | |
| Cash paid for income taxes..... | | \$ 19,833 | | \$ 3,913 | |
| Supplemental disclosure of non-cash investing and financing activities: | | | | | |
| The Company acquired the net assets and assumed certain liabilities of other companies as follows: | | | | | |
| Assets, net of cash acquired..... | | \$ 554,077 | | \$ 11,037 | |
| Liabilities assumed..... | | (141,320) | | (957) | |
| Less:..... | | | | | |
| Amounts paid in common stock and warrants of Parent..... | | (10,000) | | | |
| Amounts paid through issuance of debt..... | | (65,500) | | | |
| | ----- | ----- | ----- | ----- | ----- |
| Net cash paid..... | | \$ 337,257 | | \$ 10,080 | |
| | ===== | ===== | ===== | ===== | ===== |

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UNITED RENTALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

CONDENSED CONSOLIDATING CASH FLOW INFORMATION
For the Year Ended December 31, 1999

| | Parent | URI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Other |
|--|----------------|------------|------------------------|----------------------------|-------|
| | ----- | ----- | ----- | ----- | ----- |
| | (In thousands) | | | | |
| Net cash provided by (used in) operating activities..... | \$ (4,824) | \$ 292,412 | \$ 13,185 | \$ 119,585 | \$ |
| Cash Flows From Investing Activities: | | | | | |

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| | | | | |
|--|-----------|--------------|-----------|-----------|
| Purchases of rental equipment..... | | (539,775) | (99,365) | (78,972) |
| Purchases of property and equipment..... | (14,181) | (74,634) | (20,366) | (14,468) |
| Proceeds from sales of rental equipment..... | | 113,982 | 106,737 | 14,959 |
| Proceeds from sale of businesses..... | | 1,040 | 2,354 | 3,127 |
| Payments of contingent purchase price... | | (2,387) | (4,265) | (1,564) |
| Purchases of other companies..... | | (915,937) | | (70,853) |
| Capital contributed to subsidiary..... | (522,985) | | | |
| In-process acquisition costs..... | | | | |
| | ----- | ----- | ----- | ----- |
| Net cash used in investing activities..... | (537,166) | (1,417,711) | (14,905) | (147,771) |
| Cash Flows from Financing Activities: | | | | |
| Dividend distributions to Parent..... | | (19,500) | | |
| Proceeds from debt..... | | 1,025,843 | 26,524 | 31,249 |
| Repayments of debt..... | | (474,808) | (20,958) | (1,884) |
| Proceeds from sale-leaseback..... | | 88,000 | | |
| Payments of financing costs..... | | (18,995) | | (448) |
| Capital contributions by parent..... | | 522,985 | | |
| Proceeds from issuance of common stock and warrants, net of issuance costs..... | 64,701 | | | |
| Proceeds from issuance of Series A and B preferred stock, net of issuance costs..... | 430,800 | | | |
| Proceeds from the exercise of stock options..... | 26,989 | | | |
| Proceeds from dividends from subsidiary..... | 19,500 | | | |
| | ----- | ----- | ----- | ----- |
| Net cash provided by financing activities..... | 541,990 | 1,123,525 | 5,566 | 28,917 |
| Effect of foreign exchange rates..... | | | | 598 |
| | ----- | ----- | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents..... | | (1,774) | 3,846 | 1,329 |
| Cash and cash equivalents at beginning of period..... | | 1,774 | 16,257 | 2,379 |
| | ----- | ----- | ----- | ----- |
| Cash and cash equivalents at end of period. | \$ | \$ | \$ 20,103 | \$ 3,708 |
| | ===== | ===== | ===== | ===== |
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid for interest..... | \$ 19,500 | \$ 98,728 | \$ 1,194 | \$ 4,863 |
| Cash paid for income taxes..... | | \$ 16,372 | | \$ 1,137 |
| Supplemental disclosure of non-cash investing and financing activities: | | | | |
| The Company acquired the net assets and assumed certain liabilities of other companies as follows: | | | | |
| Assets, net of cash acquired..... | | \$ 1,371,807 | | \$ 96,760 |
| Liabilities assumed..... | | (448,685) | | (23,697) |
| Less: | | | | |
| Amounts paid through issuance of debt..... | | (7,185) | | (2,210) |
| | ----- | ----- | ----- | ----- |
| Net cash paid..... | | \$ 915,937 | | \$ 70,853 |

UNITED RENTALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

CONDENSED CONSOLIDATING CASH FLOW INFORMATION
For the Year Ended December 31, 1998

| | Parent | URI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Oth Elim |
|---|------------|-------------|---------------------------|-------------------------------|-------------|
| (In thousands) | | | | | |
| Net cash provided by (used in) operating activities..... | \$ (4,157) | \$ (63,760) | \$ 206,996 | \$ 67,370 | \$ |
| Cash Flows From Investing Activities: | | | | | |
| Purchases of rental equipment..... | | (415,140) | (50,494) | (13,900) | |
| Purchases of property and equipment... | (15,535) | (65,742) | (2,851) | (1,050) | |
| Proceeds from sales of rental equipment..... | | 17,992 | 96,739 | 4,889 | |
| Proceeds from sale of businesses..... | | 10,640 | | | |
| Payments of contingent purchase price..... | | | (2,800) | (1,156) | |
| Purchases of other companies..... | | (840,730) | (12,510) | (58,597) | |
| Capital contributed to subsidiary..... | (492,590) | | | | |
| In-process acquisition costs..... | | | | | |
| Net cash provided by (used in) investing activities..... | (508,125) | (1,292,980) | 28,084 | (69,814) | |
| Cash Flows from Financing Activities: | | | | | |
| Dividend distributions to Parent..... | | (4,658) | | | |
| Proceeds from debt..... | 300,000 | 1,225,586 | 10,187 | 27,864 | |
| Repayments of debt..... | | (432,222) | (230,685) | (22,760) | |
| Proceeds from sale-leaseback..... | | 35,000 | | | |
| Payments of financing costs..... | | (24,982) | | | |
| Capital contributions by parent..... | | 492,590 | | | |
| Distributions to stockholders..... | | | (3,536) | | |
| Proceeds from issuance of common stock and warrants, net of issuance costs..... | 207,005 | | | | |
| Proceeds from the exercise of stock options..... | 619 | | | | |
| Proceeds from issuance of redeemable convertible preferred securities..... | | | | | |
| Proceeds from dividends from subsidiary..... | 4,658 | | | | |
| Net cash provided by (used in) financing activities..... | 512,282 | 1,291,314 | (224,034) | 5,104 | |
| Effect of foreign exchange rates..... | | | | (281) | |
| Net increase (decrease) in cash and cash equivalents..... | | (65,426) | 11,046 | 2,379 | |

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| | | | | | |
|--|----------|--------------|-----------|-----------|-------|
| Cash and cash equivalents at beginning of period..... | | 67,200 | 5,211 | | |
| | ----- | ----- | ----- | ----- | ----- |
| Cash and cash equivalents at end of period..... | \$ | \$ 1,774 | \$ 16,257 | \$ 2,379 | |
| | ===== | ===== | ===== | ===== | ===== |
| Supplemental disclosure of cash flow information: | | | | | |
| Cash paid for interest..... | \$ 4,658 | \$ 27,085 | \$ 11,098 | \$ 316 | |
| Cash paid for income taxes..... | | \$ 8,034 | | \$ 2,190 | |
| Supplemental disclosure of non-cash investing and financing activities: | | | | | |
| The Company acquired the net assets and assumed certain liabilities of other companies as follows: | | | | | |
| Assets, net of cash acquired..... | | \$ 1,409,516 | \$ 12,510 | \$ 79,441 | |
| Liabilities assumed..... | | (500,228) | | (18,633) | |
| Less: | | | | | |
| Amounts paid in common stock and warrants of Parent..... | | (58,093) | | (2,211) | |
| Amounts paid through issuance of debt..... | | (10,465) | | | |
| | ----- | ----- | ----- | ----- | ----- |
| Net cash paid..... | | \$ 840,730 | \$ 12,510 | \$ 58,597 | |
| | ===== | ===== | ===== | ===== | ===== |

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UNITED RENTALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

17. Subsequent Events

New Preferred Stock. On September 28, 2001, the Company entered into an agreement effecting an exchange of the Company's outstanding Series A Preferred for an equal number of shares of Series C Preferred and the exchange of the Company's Series B Preferred for an equal number of shares of Series D Preferred. Except as described below, the material terms of the new Series C Preferred are the same as the old Series A Preferred and the material terms of the new Series D Preferred are the same as the old Series B Preferred.

The certificates of designation for the Series A Preferred and Series B Preferred (the "Prior Preferred") provide that, upon the occurrence of a Change of Control (as defined in these certificates of designation), the Company is required to redeem the Prior Preferred. The term "Change of Control," as defined in these certificates of designation, would have included certain transactions that were disapproved by the Company's board. The certificates of designation for Series C Preferred and Series D Preferred (the "New Preferred") change these provisions by excluding from the definition of "Change of Control" transactions that are defined as "Non-Approved Changes of Control." In general, a Non-Approved Change of Control transaction is a change of control transaction that the board has disapproved and which the board has not facilitated by such actions as weakening or eliminating the Company's Stockholder Rights Plan.

If a Non-Approved Change of Control occurs, the holders of the New Preferred obtain the following additional rights, but only if, prior to the

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transaction, the board does not elect to offer the holders of the New Preferred essentially the same redemption rights that apply to an approved Change of Control transaction:

- . The holder of the Series C Preferred would elect a majority of the board for a specified period and, during such period, the unanimous vote of the board would be required to approve any optional redemption of the New Preferred or to declare, pay, or change the accrual rate of, any dividends on the New Preferred.
- . Upon liquidation, the holders of the New Preferred would receive, in addition to the liquidation preference and accrued dividends, an amount equal to 6.25% of the liquidation preference, compounded annually from the date the Series A Preferred was issued, in the case of the Series C Preferred, or the date the Series B was issued, in the case of the Series D Preferred, and ending on the date of the Non Approved Change of Control. In addition, after holders of the Common Stock have received the equivalent amount, the holders of the New Preferred would participate with the holders of the Common Stock in any remaining amounts available for distribution (based upon the number of shares of Common Stock into which such Preferred shares would then be convertible).
- . Dividends would begin to accrue on the New Preferred. Accrued dividends would not be payable until liquidation or sale of the Company, unless the board by unanimous vote approves earlier payment. The dividend rate would be 10% per annum of the liquidation preference, compounded annually. If these dividends are not paid quarterly, additional dividends would accrue at the rate of 8% per annum of the liquidation preference, compounded annually. Any regular or additional dividends that are not paid quarterly would be added to the liquidation preference.

Stockholders Rights Plan. The Company adopted a Stockholders Rights Plan on September 28, 2001 (with a record date of October 19, 2001). This plan and other provisions of the Company's charter and bylaws may have the effect of deferring hostile takeovers or delaying or preventing changes in control or management of the Company, including transactions in which the shareholders of the Company might otherwise receive a premium for their shares over then current market prices. The rights expire on September 27, 2011.

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
United Rentals, Inc. (Parent Company of United Rentals (North America), Inc.)

We have audited the accompanying consolidated balance sheets of United Rentals (North America), Inc. as of December 31, 2000 and 1999 and the related consolidated statements of operations, stockholder's equity, and cash flows for each of the three years in the period ended December 31, 2000. These consolidated financial statements are the responsibility of the management of United Rentals (North America), Inc. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and

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significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of United Rentals (North America), Inc. at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

/S/ ERNST & YOUNG LLP

MetroPark, New Jersey
February 23, 2001

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UNITED RENTALS (NORTH AMERICA), INC.

CONSOLIDATED BALANCE SHEETS

| | December 31 | |
|--|--------------------------------------|-------------|
| | 2000 | 1999 |
| | (In thousands, except share data) | |
| Assets | | |
| Cash and cash equivalents..... | \$ 34,384 | \$ 23,811 |
| Accounts receivable, net of allowance for doubtful accounts of \$55,624 and \$58,376 at 2000 and 1999, respectively..... | 469,594 | 434,985 |
| Inventory..... | 133,380 | 129,473 |
| Prepaid expenses and other assets..... | 104,493 | 37,125 |
| Rental equipment, net..... | 1,732,835 | 1,659,733 |
| Property and equipment, net..... | 387,432 | 276,524 |
| Goodwill, net of accumulated amortization of \$103,219 and \$49,556 at 2000 and 1999, respectively..... | 2,215,532 | 1,853,279 |
| Other intangible assets, net..... | 11,476 | 10,093 |
| | \$5,089,126 | \$4,425,023 |
| | ===== | ===== |
| Liabilities and Stockholder's Equity | | |
| Liabilities: | | |
| Accounts payable..... | \$ 260,155 | \$ 212,565 |
| Debt..... | 2,675,367 | 2,266,148 |
| Deferred taxes..... | 206,243 | 81,229 |
| Accrued expenses and other liabilities..... | 119,172 | 171,807 |
| | 3,260,937 | 2,731,749 |
| Total liabilities..... | | |
| Commitments and contingencies | | |
| Stockholder's equity: | | |
| Common stock--\$.01 par value, 3,000 shares authorized, 1,000 shares issued and outstanding..... | | |
| Additional paid-in capital..... | 1,507,661 | 1,507,330 |
| Retained earnings..... | 327,475 | 185,627 |
| Accumulated other comprehensive (loss) income..... | (6,947) | 317 |

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| | | |
|---------------------------------|-------------|-------------|
| Total stockholder's equity..... | 1,828,189 | 1,693,274 |
| | \$5,089,126 | \$4,425,023 |

See accompanying notes.

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UNITED RENTALS (NORTH AMERICA), INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year Ended December 31 | | |
|--|------------------------|-------------|------------|
| | 2000 | 1999 | 1998 |
| | (In thousands) | | |
| Revenues: | | | |
| Equipment rentals..... | \$2,056,683 | \$1,581,026 | \$ 895,466 |
| Sales of rental equipment..... | 347,678 | 235,678 | 119,620 |
| Sales of equipment and merchandise and other revenues | 514,500 | 416,924 | 205,196 |
| Total revenues..... | 2,918,861 | 2,233,628 | 1,220,282 |
| Cost of revenues: | | | |
| Cost of equipment rentals, excluding depreciation.... | 907,477 | 676,972 | 394,750 |
| Depreciation of rental equipment..... | 328,131 | 280,641 | 175,910 |
| Cost of rental equipment sales..... | 208,182 | 136,678 | 66,136 |
| Cost of equipment and merchandise sales and other operating costs..... | 386,501 | 314,419 | 160,038 |
| Total cost of revenues..... | 1,830,291 | 1,408,710 | 796,834 |
| Gross profit..... | 1,088,570 | 824,918 | 423,448 |
| Selling, general and administrative expenses..... | 454,330 | 344,328 | 195,620 |
| Merger-related expenses..... | | | 47,178 |
| Non-rental depreciation and amortization..... | 78,583 | 57,941 | 34,684 |
| Operating income..... | 555,657 | 422,649 | 145,966 |
| Interest expense..... | 228,779 | 139,828 | 64,157 |
| Other (income) expense, net..... | (1,836) | (1,646) | (5,097) |
| Income before provision for income taxes and extraordinary item..... | 328,714 | 284,467 | 86,906 |
| Provision for income taxes..... | 136,416 | 116,628 | 46,971 |
| Income before extraordinary item..... | 192,298 | 167,839 | 39,935 |
| Extraordinary item, net of tax benefit of \$14,255..... | | | 21,337 |
| Net income..... | \$ 192,298 | \$ 167,839 | \$ 18,598 |

See accompanying notes.

UNITED RENTALS (NORTH AMERICA), INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY

| | Common Stock | | | | Accu O |
|---|---------------------|--------------------|----------------------|-------------------------|----------------|
| | Number of Shares | Paid-in Capital | Retained Earnings | Comprehensive Income | Compr (Loss |
| | Amount | Additional | | | |
| | | | | | |
| (In thousands except share amounts) | | | | | |
| Balance, December 31, 1997..... | 1,000 | \$ 402,320 | \$ 44,068 | | |
| Comprehensive Income: | | | | | |
| Net income..... | | | 18,598 | \$ 18,598 | |
| Other comprehensive income: | | | | | |
| Foreign currency translation adjustments-..... | | | | (281) | \$ |
| Comprehensive income..... | | | | \$ 18,317 | |
| Contributed capital from Parent..... | | 563,045 | | | |
| Reclassification of Subchapter S accumulated earnings to capital from Parent..... | | 18,979 | (18,979) | | |
| Pooling-of-interests..... | | 1 | 1,795 | | |
| Subchapter S distributions of a pooled entity..... | | | (3,536) | | |
| Dividend distribution to Parent..... | | | (4,658) | | |
| Balance, December 31, 1998..... | 1,000 | 984,345 | 37,288 | | |
| Comprehensive income: | | | | | |
| Net income..... | | | 167,839 | \$167,839 | |
| Other comprehensive income: | | | | | |
| Foreign currency translation adjustments..... | | | | 598 | |
| Comprehensive income..... | | | | \$168,437 | |
| Contributed capital from parent..... | | 522,985 | | | |
| Dividend distributions to parent..... | | | (19,500) | | |
| Balance, December 31, 1999..... | 1,000 | 1,507,330 | 185,627 | | |
| Comprehensive income: | | | | | |
| Net income..... | | | 192,298 | 192,298 | |
| Other comprehensive income: | | | | | |
| Foreign currency translation adjustments..... | | | | (7,264) | |
| Comprehensive income..... | | | | \$185,034 | |
| Contributed capital from parent..... | | 331 | | | |
| Dividend distributions to parent..... | | | (50,450) | | |
| Balance, December 31, 2000..... | 1,000 | \$1,507,661 | \$327,475 | | \$ (|

See accompanying notes.

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UNITED RENTALS (NORTH AMERICA), INC.
 CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year End | |
|---|------------|-----|
| | 2000 | 1 |
| | (In | |
| Cash Flows From Operating Activities: | | |
| Net income..... | \$ 192,298 | \$ |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization..... | 406,714 | |
| Gain on sales of rental equipment..... | (139,496) | |
| Gain on sale of businesses..... | (4,084) | |
| Write down of assets held for sale..... | | |
| Extraordinary item..... | | |
| Deferred taxes..... | 109,280 | |
| Changes in operating assets and liabilities: | | |
| Accounts receivable..... | 8,613 | |
| Inventory..... | 69,706 | |
| Prepaid expenses and other assets..... | (77,579) | |
| Accounts payable..... | 14,290 | |
| Accrued expenses and other liabilities..... | (65,062) | |
| Net cash provided by operating activities..... | 514,680 | |
| Cash Flows From Investing Activities: | | |
| Purchases of rental equipment..... | (808,204) | (|
| Purchases of property and equipment..... | (140,699) | (|
| Proceeds from sales of rental equipment..... | 347,678 | |
| Proceeds from sale of businesses..... | 19,246 | |
| Purchases of other companies..... | (347,337) | (|
| Payments of contingent purchase price..... | (16,266) | |
| Net cash used in investing activities..... | (945,582) | (1, |
| Cash Flows From Financing Activities: | | |
| Capital contributions by Parent..... | 331 | |
| Proceeds from debt..... | 456,202 | 1, |
| Payments on debt..... | (134,599) | (|
| Proceeds from sale-leaseback..... | 193,478 | |
| Dividend distributions to Parent..... | (50,450) | |
| Subchapter S distributions of a pooled entity..... | | |
| Payments of financing costs..... | (16,223) | |
| Net cash provided by financing activities..... | 448,739 | 1, |
| Effect of foreign exchange rates..... | (7,264) | |
| Net increase (decrease) in cash and cash equivalents..... | 10,573 | |
| Cash and cash equivalents at beginning of year..... | 23,811 | |

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| | | |
|--|------------|-------|
| Cash and cash equivalents at end of year..... | \$ 34,384 | \$ |
| | ===== | ===== |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest..... | \$ 229,263 | \$ |
| Cash paid for taxes, net of refunds..... | \$ 23,746 | \$ |
| Supplemental schedule of non cash investing and financing activities: | | |
| The Company acquired the net assets and assumed certain liabilities of other companies as follows: | | |
| Assets, net of cash acquired..... | \$ 565,114 | \$ 1, |
| Liabilities assumed..... | (142,277) | (|
| Less: | | |
| Amounts paid in common stock and warrants of the Parent..... | (10,000) | |
| Amounts paid through issuance of debt..... | (65,500) | |
| | ----- | ----- |
| Net cash paid..... | \$ 347,337 | \$ |
| | ===== | ===== |

See accompanying notes.

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UNITED RENTALS (NORTH AMERICA), INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

United Rentals (North America), Inc., ("URI") and subsidiaries is a wholly owned subsidiary of United Rentals, Inc., which is principally a holding company ("Holdings" or "Parent"). Holdings was incorporated in July 1998 and became the parent of URI on August 5, 1998, pursuant to the reorganization of the legal structure of URI. Prior to such reorganization, the name of URI was United Rentals, Inc. References herein to the "Company" refer to URI and its subsidiaries.

Certain footnotes are not provided for the accompanying financial statements as the information in Notes 1 through 9, 11 and 13 through 15 to the consolidated financial statements of United Rentals, Inc. included elsewhere in this report is substantially equivalent to that required for the consolidated financial statements of URI and its subsidiaries. Earnings per share data is not provided for the operating results of URI and subsidiaries, as they are wholly owned subsidiaries of Holdings. URI's various credit agreements and debt instruments place restrictions on its ability to transfer funds to its shareholder.

Holdings provides certain services to URI in connection with its operations. These services principally include: (i) senior management services, (ii) finance related services and support, (iii) information technology systems and support and (iv) acquisition related services. In addition, Holdings leases certain equipment and real property that are made available for use by URI and its subsidiaries. URI has made, and expects to continue to make, certain payments to Holdings in respect of the services provided by Holdings to the Company. The expenses relating to URI's payments to Holdings are reflected on URI's financial statements as selling, general and administrative expenses. In addition, although not legally obligated to do so, URI has in the past, and expects that it will in the future, make distributions to Holdings for, among other things, enabling Holdings to pay dividends on its preferred securities.

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2. Capital Stock and Contributions

At December 31, 2000, the Company has authorized 3,000 shares of its \$0.01 par value common stock of which 1,000 shares are issued and outstanding. All of the issued and outstanding common shares are owned by its Parent.

Pursuant to the reorganization described in Note 1, the net proceeds from the Company's initial public offering completed in December 1997 and the public offering completed in March 1998 have been reflected as Contributed Capital from the Parent in the accompanying statement of stockholder's equity. Holdings also contributed the net proceeds from the issuance of redeemable convertible preferred securities in August 1998 to URI. During 1999, Holdings contributed the net proceeds from the issuance of common stock in a public offering and the net proceeds from the issuance of perpetual convertible preferred stock to URI.

3. Condensed Consolidating Financial Information of Guarantor Subsidiaries

Certain indebtedness of URI is guaranteed by URI's United States subsidiaries (the "guarantor subsidiaries") but is not guaranteed by URI's foreign subsidiaries (the "non-guarantor subsidiaries"). The guarantor subsidiaries are all wholly-owned and the guarantees are made on a joint and several basis and are full and unconditional (subject to subordination provisions and subject 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

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UNITED RENTALS (NORTH AMERICA), INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

conveyance laws). All expenses incurred by URI have been charged by URI to its guarantor and 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 as of December 31, 2000 and 1999, and for each of the three years in the period ended December 31, 2000, are presented. The condensed consolidating financial information of URI and its subsidiaries are as follows:

CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2000

| | URI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | |
|--|------------|---------------------------|-------------------------------|--------------|----|
| ----- | | | | | |
| (In thousands) | | | | | |
| Assets | | | | | |
| Cash and cash equivalents..... | | \$ 29,733 | \$ 4,651 | | \$ |
| Accounts receivable, net..... | \$ 216,444 | 143,295 | 109,855 | | |
| Intercompany receivable (payable)..... | 319,423 | (55,187) | (264,236) | | |
| Inventory..... | 54,022 | 73,979 | 5,379 | | |
| Prepaid expenses and other assets..... | 28,263 | 75,633 | 597 | | |
| Rental equipment, net..... | 837,972 | 766,219 | 128,644 | | |

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| | | | | |
|--|-------------|-------------|------------|----------------|
| Property and equipment, net..... | 139,871 | 231,195 | 16,366 | |
| Investment in subsidiaries..... | 2,257,692 | | | \$ (2,257,962) |
| Intangible assets, net..... | 960,444 | 1,132,438 | 134,126 | |
| | ----- | ----- | ----- | ----- |
| | \$4,814,131 | \$2,397,305 | \$ 135,382 | \$ (2,257,962) |
| | ===== | ===== | ===== | ===== |
| Liabilities and Stockholder's Equity | | | | |
| Liabilities: | | | | |
| Accounts payable..... | \$ 78,623 | \$ 165,677 | \$ 15,855 | \$ |
| Debt..... | 2,647,144 | 3,484 | 24,739 | |
| Deferred taxes..... | 186,091 | 20,702 | (550) | |
| Accrued expenses and other liabilities.. | 86,560 | 18,862 | 13,750 | |
| | ----- | ----- | ----- | ----- |
| Total liabilities..... | 2,998,418 | 208,725 | 53,794 | |
| Commitments and contingencies | | | | |
| Stockholder's equity: | | | | |
| Common stock..... | | | | |
| Additional paid-in capital..... | 1,488,238 | 1,830,500 | 65,657 | (1,876,734) |
| Retained earnings..... | 327,475 | 358,080 | 22,878 | (380,958) |
| Accumulated other comprehensive loss..... | | | (6,947) | |
| | ----- | ----- | ----- | ----- |
| Total stockholder's equity..... | 1,815,713 | 2,188,580 | 81,588 | \$ (2,257,692) |
| | ----- | ----- | ----- | ----- |
| | \$4,814,131 | \$2,397,305 | \$ 135,382 | \$ (2,257,692) |
| | ===== | ===== | ===== | ===== |

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UNITED RENTALS (NORTH AMERICA), INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

CONDENSED CONSOLIDATING BALANCE SHEET

| | December 31, 1999 | | | |
|--|---------------------------|-------------------------------|--------------|----------------|
| URI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Co |
| (In thousands) | | | | |
| Assets | | | | |
| Cash and cash equivalents..... | \$ 3,689 | \$ 16,414 | \$ 3,708 | \$ |
| Accounts receivable, net..... | 200,419 | 199,981 | 34,585 | |
| Intercompany receivable (payable)..... | 142,156 | 42,906 | (185,062) | |
| Inventory..... | 56,086 | 64,253 | 9,134 | |
| Prepaid expenses and other assets..... | 1,020 | 18,296 | 17,809 | |
| Rental equipment, net..... | 747,232 | 789,967 | 122,534 | |
| Property and equipment, net..... | 150,841 | 106,232 | 19,451 | |
| Investment in subsidiaries..... | 2,072,115 | | | \$ (2,072,115) |
| Intangible assets, net..... | 792,198 | 948,128 | 123,046 | |
| | ----- | ----- | ----- | ----- |
| | \$4,165,756 | \$2,186,177 | \$ 145,205 | \$ (2,072,115) |

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| | ===== | ===== | ===== | ===== |
|--|-------------|-------------|------------|---------------|
| Liabilities and Stockholder's Equity | | | | |
| Liabilities: | | | | |
| Accounts payable..... | \$ 71,995 | \$ 120,511 | \$ 20,059 | \$ |
| Debt..... | 2,231,923 | 380 | 33,845 | |
| Deferred income taxes..... | 80,476 | | 753 | |
| Accrued expenses and other liabilities.. | 107,828 | 53,177 | 10,802 | |
| | ----- | ----- | ----- | ----- |
| Total liabilities..... | 2,492,222 | 174,068 | 65,459 | |
| Commitments and contingencies | | | | |
| Stockholder's equity: | | | | |
| Common stock..... | | | | |
| Additional paid-in capital..... | 1,487,907 | 1,830,182 | 65,644 | \$(1,876,403) |
| Retained earnings..... | 185,627 | 181,927 | 13,785 | (195,712) |
| Accumulated other comprehensive income..... | | | 317 | |
| | ----- | ----- | ----- | ----- |
| Total stockholder's equity..... | 1,673,534 | 2,012,109 | 79,746 | (2,072,115) |
| | ----- | ----- | ----- | ----- |
| | \$4,165,756 | \$2,186,177 | \$ 145,205 | \$(2,072,115) |
| | ===== | ===== | ===== | ===== |

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UNITED RENTALS (NORTH AMERICA), INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the Year Ended December 31, 2000

| | URI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations |
|---|----------------|---------------------------|-------------------------------|--------------|
| | ----- | ----- | ----- | ----- |
| | (In thousands) | | | |
| Revenues: | | | | |
| Equipment rentals..... | \$ 851,541 | \$1,094,613 | \$ 110,529 | |
| Sales of rental equipment..... | 145,519 | 178,576 | 23,583 | |
| Sales of equipment and merchandise and other revenues..... | 253,798 | 229,219 | 31,483 | |
| | ----- | ----- | ----- | ----- |
| Total revenues..... | 1,250,858 | 1,502,408 | 165,595 | |
| Cost of revenues: | | | | |
| Cost of equipment rentals, excluding depreciation..... | 364,047 | 494,350 | 49,080 | |
| Depreciation of rental equipment..... | 152,640 | 155,239 | 20,252 | |
| Cost of rental equipment sales..... | 87,161 | 106,617 | 14,404 | |
| Cost of equipment and merchandise sales and other operating costs..... | 197,190 | 164,186 | 25,125 | |
| | ----- | ----- | ----- | ----- |
| Total cost of revenues..... | 801,038 | 920,392 | 108,861 | |
| | ----- | ----- | ----- | ----- |
| Gross profit..... | 449,820 | 582,016 | 56,734 | |
| Selling, general and administrative expenses | 184,135 | 245,431 | 24,764 | |
| Non-rental depreciation and amortization.... | 33,692 | 39,618 | 5,273 | |

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| | | | | |
|--|------------|------------|----------|--------------|
| Operating income..... | 231,993 | 296,967 | 26,697 | |
| Interest expense..... | 217,904 | 135 | 10,740 | |
| Other (income) expense, net..... | 2,129 | (4,285) | 320 | |
| Income before provision for income taxes.... | 11,960 | 301,117 | 15,637 | |
| Provision for income taxes..... | 4,908 | 124,964 | 6,544 | |
| Income before equity in net earnings of subsidiaries..... | 7,052 | 176,153 | 9,093 | \$ (185,246) |
| Equity in net earnings of subsidiaries..... | 185,246 | | | |
| Net income..... | \$ 192,298 | \$ 176,153 | \$ 9,093 | \$ (185,246) |

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UNITED RENTALS (NORTH AMERICA), INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Year Ended December 31, 1999

| | URI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Co |
|---|-----------|---------------------------|-------------------------------|--------------|----|
| (In thousands) | | | | | |
| Revenues: | | | | | |
| Equipment rentals..... | \$600,431 | \$ 880,182 | \$100,413 | | \$ |
| Sales of rental equipment..... | 113,982 | 106,737 | 14,959 | | |
| Sales of equipment and merchandise and other revenues..... | 195,647 | 189,829 | 31,448 | | |
| Total revenues..... | 910,060 | 1,176,748 | 146,820 | | |
| Cost of revenues: | | | | | |
| Cost of equipment rentals, excluding depreciation..... | 250,959 | 381,718 | 44,295 | | |
| Depreciation of rental equipment..... | 116,385 | 146,622 | 17,634 | | |
| Cost of rental equipment sales..... | 62,972 | 64,945 | 8,761 | | |
| Cost of equipment and merchandise sales and other operating costs..... | 161,902 | 128,328 | 24,189 | | |
| Total cost of revenues..... | 592,218 | 721,613 | 94,879 | | |
| Gross profit..... | 317,842 | 455,135 | 51,941 | | |
| Selling, general and administrative expenses | 144,341 | 177,456 | 22,531 | | |
| Non-rental depreciation and amortization.... | 29,667 | 24,617 | 3,657 | | |
| Operating income..... | 143,834 | 253,062 | 25,753 | | |
| Interest expense..... | 132,929 | 1,428 | 5,471 | | |
| Other (income) expense, net..... | (1,549) | (524) | 427 | | |

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| | | | | |
|---|-----------|------------|-----------|--------------|
| Income before provision for income taxes.... | 12,454 | 252,158 | 19,855 | |
| Provision for income taxes..... | 3,039 | 105,531 | 8,058 | |
| Income before equity in net earnings of subsiidiaries..... | 9,415 | 146,627 | 11,797 | \$ (158,424) |
| Equity in net earnings of subsidiaries..... | 158,424 | | | |
| Net income..... | \$167,839 | \$ 146,627 | \$ 11,797 | \$ (158,424) |

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UNITED RENTALS (NORTH AMERICA), INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Year Ended December 31, 1998

| | URI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations |
|---|-----------|---------------------------|-------------------------------|--------------|
| (In thousands) | | | | |
| Revenues: | | | | |
| Equipment rentals..... | \$213,823 | \$649,508 | \$32,135 | |
| Sales of rental equipment..... | 17,992 | 96,739 | 4,889 | |
| Sales of equipment and merchandise and other revenues..... | 58,582 | 131,427 | 15,187 | |
| Total revenues..... | 290,397 | 877,674 | 52,211 | |
| Cost of revenues: | | | | |
| Cost of equipment rentals, excluding depreciation..... | 91,100 | 289,892 | 13,758 | |
| Depreciation of rental equipment..... | 45,602 | 125,810 | 4,498 | |
| Cost of rental equipment sales..... | 8,586 | 54,805 | 2,745 | |
| Cost of equipment and merchandise sales and other operating costs..... | 49,754 | 98,332 | 11,952 | |
| Total cost of revenues..... | 195,042 | 568,839 | 32,953 | |
| Gross profit..... | 95,355 | 308,835 | 19,258 | |
| Selling, general and administrative expenses.. | 31,092 | 155,512 | 9,016 | |
| Merger-related expenses..... | | 47,178 | | |
| Non-rental depreciation and amortization..... | 8,682 | 24,769 | 1,233 | |
| Operating income..... | 55,581 | 81,376 | 9,009 | |
| Interest expense..... | 33,006 | 24,193 | 6,958 | |
| Other (income) expense, net..... | (2,481) | (2,605) | (11) | |
| Income before provision for income taxes and extraordinary item..... | 25,056 | 59,788 | 2,062 | |
| Provision for income taxes..... | 13,850 | 33,047 | 74 | |
| Income before extraordinary item and equity in net earnings of subsidiaries..... | 11,206 | 26,741 | 1,988 | |

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| | | | | |
|---|-----------|----------|----------|-----------|
| Extraordinary item, net..... | | 21,337 | | |
| | ----- | ----- | ----- | ----- |
| Income before equity in net earnings of subsidiaries..... | 11,206 | 5,404 | 1,988 | \$(7,392) |
| Equity in net earnings of subsidiaries..... | 7,392 | | | |
| | ----- | ----- | ----- | ----- |
| Net income..... | \$ 18,598 | \$ 5,404 | \$ 1,988 | \$(7,392) |
| | ===== | ===== | ===== | ===== |

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UNITED RENTALS (NORTH AMERICA), INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

CONDENSED CONSOLIDATING CASH FLOW INFORMATION
For the Year Ended December 31, 2000

| | URI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations |
|---|----------------|---------------------------|-------------------------------|--------------|
| | ----- | ----- | ----- | ----- |
| | (In thousands) | | | |
| Net cash provided by operating activities... | \$ 243,759 | \$ 227,855 | \$ 43,066 | |
| Cash Flows From Investing Activities: | | | | |
| Purchases of rental equipment..... | (489,259) | (283,488) | (35,457) | |
| Purchases of property and equipment..... | (34,477) | (102,510) | (3,712) | |
| Proceeds from sales of rental equipment.. | 145,519 | 178,576 | 23,583 | |
| Proceeds from sale of businesses..... | 16,246 | 3,000 | | |
| Payments of contingent purchase price.... | (3,030) | (13,236) | | |
| Purchases of other companies..... | (337,257) | | (10,080) | |
| | ----- | ----- | ----- | ----- |
| Net cash used in investing activities..... | (702,258) | (217,658) | (25,666) | |
| Cash Flows from Financing Activities: | | | | |
| Dividend distributions to Parent..... | (50,450) | | | |
| Proceeds from debt..... | 452,912 | 3,290 | | |
| Repayments of debt..... | (125,238) | (168) | (9,193) | |
| Proceeds from sale-leaseback..... | 193,478 | | | |
| Payments of financing costs..... | (16,223) | | | |
| Capital contributions by parent..... | 331 | | | |
| | ----- | ----- | ----- | ----- |
| Net cash provided by financing activities..... | 454,810 | 3,122 | (9,193) | |
| Effect of foreign exchange rates..... | | | (7,264) | |
| | ----- | ----- | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents..... | (3,689) | 13,319 | 943 | |
| Cash and cash equivalents at beginning of period..... | 3,689 | 16,414 | 3,708 | |
| | ----- | ----- | ----- | ----- |
| Cash and cash equivalents at end of period..... | \$ | \$ 29,733 | \$ 4,651 | |
| | ===== | ===== | ===== | ===== |

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Supplemental disclosure of cash flow information:

| | | | |
|---------------------------------|------------|--------|-----------|
| Cash paid for interest..... | \$ 218,346 | \$ 135 | \$ 10,782 |
| Cash paid for income taxes..... | \$ 19,833 | | \$ 3,913 |

Supplemental disclosure of non-cash investing and financing activities:

The Company acquired the net assets and assumed certain liabilities of other companies as follows:

| | | | |
|--|------------|-------|-----------|
| Assets, net of cash acquired..... | \$ 554,077 | | \$ 11,037 |
| Liabilities assumed..... | (141,320) | | (957) |
| Less: | | | |
| Amounts paid in common stock and warrants of Parent..... | (10,000) | | |
| Amounts paid through issuance of debt..... | (65,500) | | |
| | ----- | ----- | ----- |
| Net cash paid..... | \$ 337,257 | | \$ 10,080 |
| | ===== | ===== | ===== |

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UNITED RENTALS (NORTH AMERICA), INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

CONDENSED CONSOLIDATING CASH FLOW INFORMATION
For the Year Ended December 31, 1999

| | URI | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | |
|--|-------------|------------------------|----------------------------|--------------|----|
| (In thousands) | | | | | |
| Net cash provided by operating activities. | \$ 292,412 | \$ 13,185 | \$ 119,585 | | \$ |
| Cash Flows From Investing Activities: | | | | | |
| Purchases of rental equipment..... | (539,775) | (99,365) | (78,972) | | |
| Purchases of property and equipment.... | (74,634) | (20,366) | (14,468) | | |
| Proceeds from sales of rental equipment..... | 113,982 | 106,737 | 14,959 | | |
| Proceeds from sale of businesses..... | 1,040 | 2,354 | 3,127 | | |
| Payments of contingent purchase price.. | (2,387) | (4,265) | (1,564) | | |
| Purchases of other companies..... | (915,937) | | (70,853) | | |
| | ----- | ----- | ----- | ----- | |
| Net cash used in investing activities..... | (1,417,711) | (14,905) | (147,771) | | |
| Cash Flows from Financing Activities: | | | | | |
| Dividend distributions to Parent..... | (19,500) | | | | |
| Proceeds from debt..... | 1,025,843 | 26,524 | 31,249 | | |
| Repayments of debt..... | (474,808) | (20,958) | (1,884) | | |
| Proceeds from sale-leaseback..... | 88,000 | | | | |
| Payments of financing costs..... | (18,995) | | (448) | | |
| Capital contributions by parent..... | 522,985 | | | | |
| | ----- | ----- | ----- | ----- | |

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| | | | | |
|--|--------------|-----------|-----------|-------|
| Net cash provided by financing activities..... | 1,123,525 | 5,566 | 28,917 | |
| Effect of foreign exchange rates..... | | | 598 | |
| | ----- | ----- | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents..... | (1,774) | 3,846 | 1,329 | |
| Cash and cash equivalents at beginning of period..... | 1,774 | 16,257 | 2,379 | |
| | ----- | ----- | ----- | ----- |
| Cash and cash equivalents at end of period..... | \$ | \$ 20,103 | \$ 3,708 | \$ |
| | ===== | ===== | ===== | ===== |
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid for interest..... | \$ 98,728 | \$ 1,194 | \$ 4,863 | \$ |
| Cash paid for income taxes..... | \$ 16,372 | | \$ 1,137 | \$ |
| Supplemental disclosure of non-cash investing and financing activities: | | | | |
| The Company acquired the net assets and assumed certain liabilities of other companies as follows: | | | | |
| Assets, net of cash acquired..... | \$ 1,371,807 | | \$ 96,760 | \$ |
| Liabilities assumed..... | (448,685) | | (23,697) | |
| Less: | | | | |
| Amounts paid through issuance of debt..... | (7,185) | | (2,210) | |
| | ----- | ----- | ----- | ----- |
| Net cash paid..... | \$ 915,937 | | \$ 70,853 | \$ |
| | ===== | ===== | ===== | ===== |

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UNITED RENTALS (NORTH AMERICA), INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

CONDENSED CONSOLIDATING CASH FLOW INFORMATION
For the Year Ended December 31, 1998

| | URI | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminatio |
|--|----------------|---------------------------|-----------------------------------|------------|
| | ----- | ----- | ----- | ----- |
| | (In thousands) | | | |
| Net cash provided by (used in) operating activities..... | \$ (63,760) | \$ 206,996 | \$ 67,370 | |
| Cash Flows From Investing Activities: | | | | |
| Purchases of rental equipment..... | (415,140) | (50,494) | (13,900) | |
| Purchases of property and equipment..... | (65,742) | (2,851) | (1,050) | |
| Proceeds from sales of rental equipment..... | 17,992 | 96,739 | 4,889 | |
| Proceeds from sale of businesses..... | 10,640 | | | |

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| | | | | |
|--|--------------|-----------|-----------|-------|
| Payments of contingent purchase price..... | | (2,800) | (1,156) | |
| Purchases of other companies..... | (840,730) | (12,510) | (58,597) | |
| | ----- | ----- | ----- | ----- |
| Net cash used in investing activities..... | (1,292,980) | 28,084 | (69,814) | |
| Cash Flows from Financing Activities: | | | | |
| Dividend distributions to Parent..... | (4,658) | | | |
| Proceeds from debt..... | 1,225,586 | 10,187 | 27,864 | |
| Repayments of debt..... | (432,222) | (230,685) | (22,760) | |
| Proceeds from sale-leaseback..... | 35,000 | | | |
| Payments of financing costs..... | (24,982) | | | |
| Capital contributions by parent..... | 492,590 | | | |
| Distributions to stockholders..... | | (3,536) | | |
| | ----- | ----- | ----- | ----- |
| Net cash provided by (used in) financing activities..... | 1,291,314 | (224,034) | 5,104 | |
| Effect of foreign exchange rates..... | | | (281) | |
| | ----- | ----- | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents..... | (65,426) | 11,046 | 2,379 | |
| Cash and cash equivalents at beginning of period..... | 67,200 | 5,211 | | |
| | ----- | ----- | ----- | ----- |
| Cash and cash equivalents at end of period..... | \$ 1,774 | \$ 16,257 | \$ 2,379 | |
| | ===== | ===== | ===== | ===== |
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid for interest..... | \$ 27,085 | \$ 11,098 | \$ 316 | |
| Cash paid for income taxes..... | \$ 8,034 | | \$ 2,190 | |
| Supplemental disclosure of non-cash investing and financing activities: | | | | |
| The Company acquired the net assets and assumed certain liabilities of other companies as follows: | | | | |
| Assets, net of cash acquired..... | \$ 1,409,516 | \$ 12,510 | \$ 79,441 | |
| Liabilities assumed..... | (500,228) | | (18,633) | |
| Less: | | | | |
| Amounts paid in common stock and warrants of Parent..... | (58,093) | | (2,211) | |
| Amounts paid through issuance of debt..... | (10,465) | | | |
| | ----- | ----- | ----- | ----- |
| Net cash paid..... | \$ 840,730 | \$ 12,510 | \$ 58,597 | |
| | ===== | ===== | ===== | ===== |

REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENT SCHEDULES

Board of Directors
United Rentals, Inc.

We have audited the consolidated financial statements of United Rentals, Inc. as of December 31, 2000 and 1999, and for each of the three years in the period ended December 31, 2000, and have issued our report thereon dated February 23, 2001, except for Note 2, paragraphs 9, 10 and 11, and Note 17 as

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to which the date is September 28, 2001, included elsewhere in this Amendment No. 1 on Form 10-K/A. Our audits also included the financial statement schedules listed in Item 14(a)(2). These schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

MetroPark, New Jersey
February 23, 2001, except for
Note 4 as to which the date
is September 28, 2001

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SCHEDULE I--CONDENSED FINANCIAL INFORMATION OF REGISTRANT

UNITED RENTALS, INC.

CONDENSED BALANCE SHEET

| | December 31 | |
|---|-----------------------|-------------|
| | 2000 | 1999 |
| | Restated (see Note 4) | |
| | (In thousands) | |
| Assets | | |
| Prepaid expenses and other assets..... | | \$ 31,554 |
| Property and equipment, net..... | \$ 34,807 | 28,383 |
| Investment in and advances to subsidiaries..... | 1,839,952 | 1,702,802 |
| | ----- | ----- |
| | \$1,874,759 | \$1,762,739 |
| | ===== | ===== |
| Liabilities and Stockholders' Equity | | |
| Liabilities: | | |
| Accounts payable..... | | \$ 30,381 |
| Debt..... | \$ 300,000 | 300,000 |
| Accrued expenses and other liabilities..... | 28,816 | 34,872 |
| | ----- | ----- |
| Total liabilities..... | 328,816 | 365,253 |
| Commitments and contingencies | | |
| Series A and B preferred stock..... | 430,800 | 430,800 |
| Stockholders' equity: | | |
| Common stock..... | 711 | 721 |
| Additional paid-in capital..... | 765,529 | 786,173 |
| Retained earnings..... | 355,850 | 179,475 |
| Accumulated other comprehensive (loss) income. | (6,947) | 317 |
| | ----- | ----- |
| Total stockholders' equity..... | 1,115,143 | 966,686 |

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| | |
|-------------|-------------|
| ----- | ----- |
| \$1,874,759 | \$1,762,739 |
| ===== | ===== |

See accompanying notes.

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SCHEDULE I--CONDENSED FINANCIAL INFORMATION OF REGISTRANT

UNITED RENTALS, INC.

CONDENSED STATEMENT OF OPERATIONS

| | Year Ended December 31 | | |
|--|------------------------|-----------|----------|
| | 2000 | 1999 | 1998 |
| ----- | | | |
| (In thousands) | | | |
| Selling, general and administrative expenses..... | | \$ 8,267 | |
| Non-rental depreciation and amortization..... | \$ 7,718 | 4,926 | \$ 561 |
| | ----- | ----- | ----- |
| Operating loss..... | (7,718) | (13,193) | (561) |
| Interest expense..... | 19,500 | 19,500 | 7,854 |
| Other (income) expense, net..... | | 9,689 | |
| | ----- | ----- | ----- |
| Loss before benefit for income taxes..... | (27,218) | (42,382) | (8,415) |
| Benefit for income taxes..... | 11,295 | 17,487 | 3,472 |
| | ----- | ----- | ----- |
| Net loss before equity in earnings of subsidiaries | (15,923) | (24,895) | (4,943) |
| Equity in earnings of subsidiaries..... | 192,298 | 167,561 | 18,404 |
| | ----- | ----- | ----- |
| Net income..... | \$176,375 | \$142,666 | \$13,461 |
| | ===== | ===== | ===== |

See accompanying notes.

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SCHEDULE I--CONDENSED FINANCIAL INFORMATION OF REGISTRANT

UNITED RENTALS, INC.

CONDENSED CASH FLOW INFORMATION

| Year Ended December 31, | | |
|-------------------------|------|------|
| 2000 | 1999 | 1998 |
| ----- | | |

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| | ----- | ----- | ----- |
|---|----------------|------------|------------|
| | (In thousands) | | |
| Net cash used in operating activities..... | \$ (37,379) | \$ (4,824) | \$ (4,157) |
| Cash Flows from Investing Activities: | | | |
| Purchase of property and equipment..... | (13,071) | (14,181) | (15,535) |
| Capital contributed to subsidiary..... | (331) | (522,985) | (492,590) |
| | ----- | ----- | ----- |
| Net cash used in investing activities..... | (13,402) | (537,166) | (508,125) |
| Cash Flows from Financing Activities: | | | |
| Proceeds from issuance of common stock and warrants, net of issuance costs..... | | 64,701 | 207,005 |
| Proceeds from the issuance of Series A and B preferred stock, net of issuance costs..... | | 430,800 | |
| Proceeds from debt..... | | | 300,000 |
| Proceeds from the exercise of stock options..... | 331 | 26,989 | 619 |
| Proceeds from dividends from subsidiary..... | 50,450 | 19,500 | 4,658 |
| | ----- | ----- | ----- |
| Net cash provided by financing activities..... | 50,781 | 541,990 | 512,282 |
| | ----- | ----- | ----- |
| Net increase in cash and cash equivalents..... | | | |
| Cash and cash equivalents at beginning of period..... | | | |
| | ----- | ----- | ----- |
| Cash and cash equivalents at end of period..... | \$ | \$ | \$ |
| | ===== | ===== | ===== |

See accompanying notes.

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SCHEDULE I--CONDENSED FINANCIAL INFORMATION OF REGISTRANT

UNITED RENTALS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Basis of Presentation

United Rentals, Inc. is principally a holding company ("Holdings") and conducts its operations primarily through its wholly owned subsidiary United Rentals (North America), Inc. ("URI") and subsidiaries. In the parent company-only financial statements, Holdings, investment in subsidiaries is stated at cost plus equity in undistributed earnings of subsidiaries since the date of acquisition. Holdings share of net income of its unconsolidated subsidiaries is included in consolidated income using the equity method. The parent company-only financial statements should be read in conjunction with the Company's consolidated financial statements.

2. Debt

See Note 10 to the Consolidated Financial Statements for information concerning debt.

3. Guarantee

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See Note 10 to the Consolidated Financial Statements for information concerning the guarantee.

4. Preferred Stock

See Note 2 to the Consolidated Financial Statements for certain information concerning the Series A and B preferred stock.

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SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

UNITED RENTALS, INC. (In thousands)

| Description ----- | Balance at Beginning of Period ----- | Additions | | Deductions ----- |
|---|---|--|----------------|---------------------|
| | | Charged to Costs and Expenses ----- | Other ----- | |
| Year ended December 31, 2000: | | | | |
| Allowance for doubtful accounts..... | \$58,376 | \$38,431 | \$14,791 (a) | \$55,974 (c) |
| Reserve for inventory obsolescence and shrinkage. | 16,782 | 9,124 | 11,302 (b) | 21,747 (d) |
| Insurance reserves..... | 22,750 | 30,027 | | 37,333 (e) |
| Year ended December 31, 1999: | | | | |
| Allowance for doubtful accounts..... | 43,481 | 46,121 | 23,568 (a) | 54,794 (c) |
| Reserve for inventory obsolescence and shrinkage. | 9,288 | 6,857 | 11,975 (b) | 11,338 (d) |
| Insurance reserves..... | 20,553 | 49,223 | | 47,026 (e) |
| Year ended December 31, 1998: | | | | |
| Allowance for doubtful accounts..... | 11,085 | 24,810 | 19,079 (a) | 11,493 (c) |
| Reserve for inventory obsolescence and shrinkage. | 620 | 3,254 | 6,068 (b) | 654 (d) |
| Insurance reserves..... | 11,665 | 16,456 | | 7,568 (e) |

(a) Represents allowance for doubtful accounts established through acquisitions.

(b) Represents reserve for inventory obsolescence and shrinkage assumed through acquisitions.

(c) Represents write-offs of accounts, net of recoveries.

(d) Represents write-offs of inventory items.

(e) Represents payments.

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PART IV

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

(a) (1) Consolidated Financial Statements:

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Report of Independent Auditors

United Rentals, Inc. Consolidated Balance Sheets--December 31, 2000 and 1999

United Rentals, Inc. Consolidated Statements of Operations for the years ended December 31, 2000, 1999 and 1998

United Rentals, Inc. Consolidated Statements of Stockholders' Equity for the years ended December 31, 2000, 1999 and 1998

United Rentals, Inc. Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998

Notes to Consolidated Financial Statements

Report of Independent Auditors

United Rentals (North America), Inc. Consolidated Balance Sheets--December 31, 2000 and 1999

United Rentals (North America), Inc. Consolidated Statements of Operations for the years ended December 31, 2000, 1999 and 1998

United Rentals (North America), Inc. Consolidated Statements of Stockholder's Equity for the years ended December 31, 2000, 1999 and 1998

United Rentals (North America), Inc. Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998

Notes to Consolidated Financial Statements

(a) (2) Financial Statement Schedules:

Report of Independent Auditors on Financial Statement Schedules

Schedule I Condensed Financial Information of the Registrant

Schedule II Valuation and Qualifying Accounts

Schedules other than those listed are omitted as they are not applicable or the required or equivalent information has been included in the financial statements or notes thereto.

(a) (3) Exhibits:

A revised version of Exhibit 23 is being filed with this amendment.

(b) Reports on Form 8-K:

1. Form 8-K dated December 18, 2000 (earliest event reported December 18, 2000); Item 5 was reported.

2. Form 8-K dated December 18, 2000 (earliest event reported December 18, 2000); Item 5 was reported.

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SIGNATURES

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

UNITED RENTALS, INC.

Date: October 9, 2001

/S/ MICHAEL J. NOLAN

By: _____

Michael J. Nolan

Chief Financial Officer

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SIGNATURES

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

UNITED RENTALS (NORTH AMERICA), INC.

Date: October 9, 2001

/s/ MICHAEL J. NOLAN
By: _____
Michael J. Nolan
Chief Financial Officer