UNITED RENTALS INC /DE
Form 10-Q
July 16, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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

For the transition period from to

Commission File Number 1-14387
Commission File Number 1-13663

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

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

Registrants' Telephone Number, Including Area Code: (203) 622-3131

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No

As of July 14, 2014, there were 95,909,404 shares of United Rentals, Inc. common stock, $0.01 par value, outstanding. There is no market for the common stock of United Rentals (North America), Inc., all outstanding shares of which are owned by United Rentals, Inc.

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

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UNITED RENTALS, INC.
UNITED RENTALS (NORTH AMERICA), INC.
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014
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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

- the possibility that RSC Holdings Inc. ("RSC"), National Pump[1] or other companies that we have acquired or may acquire, in our specialty business or otherwise, could have undiscovered liabilities or involve other unexpected costs, may strain our management capabilities or may be difficult to integrate;
- a change in the pace of the recovery in our end markets; our business is cyclical and highly sensitive to North American construction and industrial activities; although we have experienced an upturn in rental activity, there is no certainty this trend will continue; if the pace of the recovery slows or construction activity declines, our revenues and, because many of our costs are fixed, our profitability may be adversely affected;
- our significant indebtedness (which totaled $8.0 billion at June 30, 2014) requires us to use a substantial portion of our cash flow for debt service and can constrain our flexibility in responding to unanticipated or adverse business conditions;
- inability to refinance our indebtedness at terms that are favorable to us, or at all;
- incurrence of additional debt, which could exacerbate the risks associated with our current level of indebtedness;
- noncompliance with financial or other covenants in our debt agreements, which could result in our lenders terminating our credit facilities and requiring us to repay outstanding borrowings;
- restrictive covenants and amount of borrowings permitted in our debt instruments, which can limit our financial and operational flexibility;
- inability to benefit from government spending, including spending associated with infrastructure projects;
- fluctuations in the price of our common stock and inability to complete stock repurchases in the time frame and/or on the terms anticipated;
- rates we charge and time utilization we achieve being less than anticipated;
- inability to manage credit risk adequately or to collect on contracts with a large number of customers;
- inability to access the capital that our businesses or growth plans may require;
- incurrence of impairment charges;
- the fact that our holding company structure requires us to depend in part on distributions from subsidiaries and such distributions could be limited by contractual or legal restrictions;
- increases in our loss reserves to address business operations or other claims and any claims that exceed our established levels of reserves;
- incurrence of additional expenses (including indemnification obligations) and other costs in connection with litigation, regulatory and investigatory matters;
- the outcome or other potential consequences of regulatory matters and commercial litigation;
- shortfalls in our insurance coverage;
- our charter provisions as well as provisions of certain debt agreements and our significant indebtedness may have the effect of making more difficult or otherwise discouraging, delaying or deterring a takeover or other change of control of us;
- turnover in our management team and inability to attract and retain key personnel;

- costs we incur being more than anticipated, and the inability to realize expected savings in the amounts or time frames planned;
- dependence on key suppliers to obtain equipment and other supplies for our business on acceptable terms;
- inability to sell our new or used fleet in the amounts, or at the prices, we expect;
- competition from existing and new competitors;
- disruptions in our information technology systems;
- the costs of complying with environmental, safety and foreign law and regulations;

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

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- labor disputes, work stoppages or other labor difficulties, which may impact our productivity, and potential enactment of new legislation or other changes in law affecting our labor relations or operations generally; and
- increases in our maintenance and replacement costs and/or decreases in the residual value of our equipment.

For a more complete description of these and other possible risks and uncertainties, please refer to our Annual Report on Form 10-K for the year ended December 31, 2013, as well as to our subsequent filings with the SEC. Our forward-looking statements contained herein speak only as of the date hereof, and we make no commitment to update or publicly release any revisions to forward-looking statements in order to reflect new information or subsequent events, circumstances or changes in expectations.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Cash and cash equivalents	$170	$175
Accounts receivable, net of allowance for doubtful accounts of $37 at June 30, 2014 and $49 at December 31, 2013	844	804
Inventory	119	70
Prepaid expenses and other assets	71	53
Deferred taxes	192	260
Total current assets	1,396	1,362
Rental equipment, net	6,029	5,374
Property and equipment, net	423	421
Goodwill, net	3,293	2,953
Other intangible assets, net	1,218	1,018
Other long-term assets	108	103
Total assets	$12,467	$11,231
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term debt and current maturities of long-term debt	$621	$604
Accounts payable	625	292
Accrued expenses and other liabilities	500	390
Total current liabilities	1,746	1,286
Long-term debt	7,394	6,569
Deferred taxes	1,440	1,459
Other long-term liabilities	80	69
Total liabilities	10,660	9,383
Temporary equity (note 8)	10	20
Common stock—$0.01 par value, 500,000,000 shares authorized, 103,090,256 and 96,133,712 shares issued and outstanding, respectively, at June 30, 2014 and 97,966,802 and 93,288,936 shares issued and outstanding, respectively, at December 31, 2013	1	1
Additional paid-in capital	2,100	2,054
Retained earnings (accumulated deficit)	117	(37)
Treasury stock at cost—6,956,544 and 4,677,866 shares at June 30, 2014 and December 31, 2013, respectively	(437)	(209)
Accumulated other comprehensive income	16	19
Total stockholders' equity	1,797	1,828
Total liabilities and stockholders' equity	$12,467	$11,231

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Equipment rentals	$1,179	$1,009	$2,184	$1,925
Sales of rental equipment	138	131	248	254
Sales of new equipment	37	24	63	45
Contractor supplies sales	22	23	41	43
Service and other revenues	23	19	41	39
Total revenues	1,399	1,206	2,577	2,306
Cost of revenues:				
Cost of equipment rentals, excluding depreciation	447	399	856	792
Depreciation of rental equipment	229	208	446	410
Cost of rental equipment sales	80	87	145	170
Cost of new equipment sales	31	19	51	36
Cost of contractor supplies sales	15	16	28	29
Cost of service and other revenues	8	6	14	13
Total cost of revenues	810	735	1,540	1,450
Gross profit	589	471	1,037	856
Selling, general and administrative expenses	187	152	355	312
Merger related costs	8	2	9	8
Restructuring charge	(1)	5	—	11
Non-rental depreciation and amortization	70	62	130	126
Operating income	325	250	543	399
Interest expense, net	187	118	312	236
Interest expense—subordinated convertible debentures	—	1	—	3
Other income, net	(4)	—	(5)	(1)
Income before provision for income taxes	142	131	236	161
Provision for income taxes	48	48	82	57
Net income	$94	$83	$154	$104
Basic earnings per share	$0.98	$0.89	$1.61	$1.12
Diluted earnings per share	$0.90	$0.78	$1.46	$0.98

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$94	$83	$154	$104
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	35	(32)	(3)	(52)
Fixed price diesel swaps	1	—	—	—
Other comprehensive income (loss)	36	(32)	(3)	(52)
Comprehensive income (1)	$130	$51	$151	$52

(1)There were no material reclassifications from accumulated other comprehensive income reflected in other comprehensive income (loss) during 2014 or 2013. There is no tax impact related to the foreign currency translation adjustments, as the earnings are considered permanently reinvested. There were no material taxes associated with other comprehensive income (loss) during 2014 or 2013.

See accompanying notes.

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

	Common Stock				Treasury Stock		
	Number of Shares (1)	Amount	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Number of Shares	Amount	Accumulated Other Comprehensive Income (Loss) (3)
Balance at December 31, 2013	93	$1	$2,054	$ (37)	5	$(209)	$ 19
Net income				154			
Foreign currency translation adjustments							(3)
Stock compensation expense, net			31				
Exercise of common stock options			2				
4 percent Convertible Senior Notes (2)	5		32				
Shares repurchased and retired			(19)				
Repurchase of common stock	(2)				2	(228)	
Balance at June 30, 2014	96	$1	$2,100	$ 117	$7	$(437)	$ 16

(1) An aggregate of less than 1 million net shares were issued during the year ended December 31, 2013.
(2)Reflects amortization of the original issue discount on the 4 percent Convertible Senior Notes (an amount equal to the unamortized portion of the original issue discount is reflected as "temporary equity" in our consolidated balance sheet) and the conversion of a portion of the 4 percent Convertible Senior Notes during the six months ended June 30, 2014, net of cash received from the option counterparties to our convertible note hedges upon the conversion. See note 8 to our condensed consolidated financial statements for additional detail.
(3)The Accumulated Other Comprehensive Income (Loss) balance primarily reflects foreign currency translation adjustments.

See accompanying notes.

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

	Six Months Ended June 30, 2014	2013
Cash Flows From Operating Activities:		
Net income	$154	$104
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	576	536
Amortization of deferred financing costs and original issue discounts	10	11
Gain on sales of rental equipment	(103)	(84)
Gain on sales of non-rental equipment	(4)	(2)
(Gain) loss on sale of software subsidiary	—	1
Stock compensation expense, net	31	19
Merger related costs	9	8
Restructuring charge	—	11
Loss on extinguishment of debt securities	75	—
Loss on retirement of subordinated convertible debentures	—	2
Increase in deferred taxes	57	39
Changes in operating assets and liabilities, net of amounts acquired:		
Decrease in accounts receivable	8	34
Increase in inventory	(31)	(43)
(Increase) decrease in prepaid expenses and other assets	(5)	6
Increase in accounts payable	315	323
Decrease in accrued expenses and other liabilities	(38)	(87)
Net cash provided by operating activities	1,054	878
Cash Flows From Investing Activities:		
Purchases of rental equipment	(1,028)	(1,025)
Purchases of non-rental equipment	(52)	(41)
Proceeds from sales of rental equipment	248	254
Proceeds from sales of non-rental equipment	18	11
Purchases of other companies, net of cash acquired	(756)	—
Net cash used in investing activities	(1,570)	(801)
Cash Flows From Financing Activities:		
Proceeds from debt	4,776	1,639
Payments of debt, including subordinated convertible debentures	(4,022)	(1,607)
Proceeds from the exercise of common stock options	2	5
Common stock repurchased	(247)	(84)
Payments of financing costs	(22)	—
Cash received in connection with the 4 percent Convertible Senior Notes and related hedge, net	25	4
Net cash provided by (used in) financing activities	512	(43)
Effect of foreign exchange rates	(1)	(7)
Net (decrease) increase in cash and cash equivalents	(5)	27
Cash and cash equivalents at beginning of period	175	106
Cash and cash equivalents at end of period	$170	$133
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net	$36	$31

Cash paid for interest, including subordinated convertible debentures	224	229

See accompanying notes.

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UNITED RENTALS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share data, unless otherwise indicated)
1. Organization, Description of Business and Basis of Presentation
United Rentals, Inc. (“Holdings,” “URI” or the “Company”) is principally a holding company and conducts its operations primarily through its wholly owned subsidiary, United Rentals (North America), Inc. (“URNA”), and subsidiaries of URNA. Holdings’ primary asset is its sole ownership of all issued and outstanding shares of common stock of URNA. URNA’s various credit agreements and debt instruments place restrictions on its ability to transfer funds to its shareholder.
We rent equipment to a diverse customer base that includes construction and industrial companies, manufacturers, utilities, municipalities, homeowners and government entities in the United States and Canada. In addition to renting equipment, we sell new and used rental equipment, as well as related contractor supplies, parts and service.
We have prepared the accompanying unaudited condensed consolidated financial statements in accordance with the accounting policies described in our annual report on Form 10-K for the year ended December 31, 2013 (the “2013 Form 10-K”) and the interim reporting requirements of Form 10-Q. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the 2013 Form 10-K.
In our opinion, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of financial condition, operating results and cash flows for the interim periods presented have been made. Interim results of operations are not necessarily indicative of the results of the full year. Certain reclassifications of prior year's amounts have been made to conform to the current year’s presentation.

New Accounting Pronouncements
Revenue from Contracts with Customers. In May 2014, the Financial Accounting Standards Board (“FASB”) issued guidance to clarify the principles for recognizing revenue. This guidance includes the required steps to achieve the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for fiscal years and interim periods beginning after December 15, 2016. Early adoption is not permitted. We expect to adopt this guidance when effective, and the impact on our financial statements is not currently estimable.
2. Acquisitions
In April 2014, we completed the acquisition of assets of the following four entities: National Pump & Compressor, Ltd., Canadian Pump and Compressor Ltd., GulfCo Industrial Equipment, LP and LD Services, LLC (collectively “National Pump”). National Pump was the second largest specialty pump rental company in North America. National Pump was a leading supplier of pumps for energy and petrochemical customers, with upstream oil and gas customers representing about half of its revenue. National Pump had a total of 35 branches, including four branches in western Canada, and had annual revenues of approximately $210. The acquisition is expected to expand our product offering, and supports our strategy of expanding our presence in industrial and specialty rental markets.
The acquisition date fair value of the consideration transferred consisted of the following:

Cash consideration (1)	$777
Contingent consideration (2)	76
Total purchase consideration (3)	$853

(1) Consists of cash paid of $718 and a ‘hold back’ of $59, which is subject to a final working capital true-up.
(2) Reflects the acquisition date fair value of the following additional cash consideration to be paid based on the achievement of the following financial targets:
1.A maximum payout of $75 if National Pump's trailing twelve months adjusted EBITDA (as defined below in “Management’s Discussion and Analysis of Financial Condition and Results of Operations- Financial Overview”) reaches $134 twelve months post-closing; and

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

2.An additional maximum payout of $50 if National Pump's trailing twelve months adjusted EBITDA reaches $161 eighteen months post-closing.
(3) Total purchase consideration excludes $15 of stock which was issued in connection with the acquisition and will be treated as compensation for book purposes but primarily represents deductible goodwill for income tax purposes.
The following table summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date. The purchase price allocations for these assets and liabilities are based on preliminary valuations and are subject to change as we obtain additional information during the acquisition measurement period.

Accounts receivable, net of allowance for doubtful accounts (1)	$46
Inventory	18
Deferred taxes	11
Rental equipment	178
Property and equipment	10
Intangibles (2)	289
Other assets	1
Total identifiable assets acquired	553
Current liabilities	(24)
Total liabilities assumed	(24)
Net identifiable assets acquired	529
Goodwill (3)	324
Net assets acquired	$853

(1) The fair value of accounts receivables acquired was $46, and the gross contractual amount was $47. We estimated that $1 will be uncollectible.
(2) The following table reflects the estimated fair values and useful lives of the acquired intangible assets identified based on our purchase accounting assessments:

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

(3) $312 of the goodwill was assigned to our trench safety, power and HVAC (“heating, ventilating and air conditioning”), and pump solutions segment and $12 of the goodwill was assigned to our general rentals segment. The level of goodwill that resulted from the merger is primarily reflective of National Pump's going-concern value, the value of National Pump's assembled workforce, new customer relationships expected to arise from the merger, and operational synergies that we expect to achieve that would not be available to other market participants. $342 of goodwill is expected to be deductible for income tax purposes.
The three and six months ended June 30, 2014 include National Pump acquisition-related costs of $8 and $9, respectively. The acquisition-related costs are reflected in our condensed consolidated statements of income as “Merger related costs” which also include costs associated with the 2012 acquisition of RSC Holdings Inc. (“RSC”). The merger related costs primarily relate to financial and legal advisory fees. We do not expect to incur significant additional charges in connection with the merger subsequent to June 30, 2014. In addition to the acquisition-related costs reflected in our condensed consolidated statements of income, we capitalized $22 of debt issuance costs associated with the issuance of debt to fund the acquisition, which are reflected, net of amortization subsequent to the acquisition date, in other long-term assets in our condensed consolidated balance sheets.
The pro forma information below has been prepared using the purchase method of accounting, giving effect to the National Pump acquisition as if it had been completed on January 1, 2013 (“the pro forma acquisition date”). The pro forma information is not necessarily indicative of our results of operations had the acquisition been completed on the

above date, nor is it necessarily indicative of our future results. The pro forma information does not reflect any cost savings from operating efficiencies or synergies that could result from the acquisition, and also does not reflect additional revenue opportunities following the acquisition. The pro forma information includes adjustments to record the acquired assets and liabilities of

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

National Pump at their respective fair values based on available information and to give effect to the financing for the acquisition. The pro forma adjustments reflected in the table below are subject to change as additional analysis is performed. The purchase price allocations for the assets acquired and liabilities assumed are based on preliminary valuations and are subject to change as we obtain additional information during the acquisition measurement period. Increases or decreases in the estimated fair values of the net assets acquired may impact our statements of income in future periods. We expect that the values assigned to the assets acquired and liabilities assumed will be finalized during the one-year measurement period following the acquisition date. The table below presents unaudited pro forma consolidated income statement information as if National Pump had been included in our consolidated results for the entire periods reflected:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
United Rentals historic revenues	$1,399	$1,206	$2,577	$2,306
National Pump historic revenues	—	52	62	94
Pro forma revenues	1,399	1,258	2,639	2,400
United Rentals historic pretax income	142	131	236	161
National Pump historic pretax income	—	15	20	26
Combined pretax income	142	146	256	187
Pro forma adjustments to combined pretax income:				
Impact of fair value mark-ups/useful life changes on depreciation (1)	—	(1)	(1)	(2)
Intangible asset amortization (2)	1	(13)	(11)	(26)
Interest expense (3)	68	(7)	62	(79)
Elimination of historic National Pump interest (4)	—	1	—	1
Elimination of merger costs (5)	8	—	9	—
Pro forma pretax income (loss)	$219	$126	$315	$81

(1) Depreciation of rental equipment and non-rental depreciation were adjusted for the fair value mark-ups of equipment acquired in the National Pump acquisition. The useful lives assigned to such equipment didn’t change significantly from the lives historically used by National Pump.
(2) The intangible assets acquired in the National Pump acquisition were amortized.
(3) In connection with the National Pump acquisition, URNA issued $525 principal amount of 6 $^{1}/_{8}$ percent Senior Notes (as an add on to our existing 6 $^{1}/_{8}$ percent Senior Notes) and $850 principal amount of 5 $^{3}/_{4}$ percent Senior Notes, and all our outstanding 9 $^{1}/_{4}$ percent Senior Notes were redeemed, as discussed in note 8 to the condensed consolidated financial statements. Interest expense was adjusted to reflect these changes in our debt portfolio. For the pro forma presentation, the $64 loss recognized upon redemption of the 9 $^{1}/_{4}$ percent Senior Notes discussed in note 8 to the condensed consolidated financial statements was moved from the three and six months ended June 30, 2014 to the six months ended June 30, 2013.
(4) Interest on National Pump historic debt was eliminated.
(5) Merger related costs associated with the National Pump acquisition were eliminated as they were assumed to have been recognized prior to the pro forma acquisition date.
For the three and six months ended June 30, 2014, National Pump revenue and pretax income included in our condensed consolidated financial statements were $67 and $14, respectively. National Pump pretax income excludes merger related costs which are not allocated to our segments.

3. Segment Information

Our reportable segments are general rentals and trench safety, power and HVAC, and pump solutions. The general rentals segment includes the rental of construction, infrastructure, industrial and homeowner equipment and related services and activities. The general rentals segment's customers include construction and industrial companies, manufacturers, utilities, municipalities, homeowners and government entities. The general rentals segment comprises 12 geographic regions—Eastern Canada, Gulf South, Industrial (which serves the geographic Gulf region and has a strong industrial presence), Mid-Atlantic, Mid-Central, Midwest, Mountain West, Northeast, Pacific West, South, Southeast and Western Canada—and operates throughout the United States and Canada. The trench safety, power and HVAC, and pump solutions segment includes the rental of specialty construction products and related services. The trench safety, power and HVAC, and pump solutions segment is comprised of the Trench Safety region, which rents trench safety equipment such as trench shields, aluminum hydraulic shoring systems, slide rails, crossing plates, construction lasers and line testing equipment for underground work, the Power and HVAC region, which rents power and HVAC equipment such as portable diesel generators, electrical distribution equipment, and temperature control equipment including heating and cooling equipment, and the Pump Solutions region, which rents pumps primarily used by energy and petrochemical customers. The trench safety, power and HVAC, and pump solutions segment's customers include construction companies involved in infrastructure projects, municipalities and industrial companies. This segment operates throughout the United States and in Canada. These segments align our external segment reporting with how management evaluates and allocates resources. We evaluate segment performance based on segment equipment rentals gross profit.

The following tables set forth financial information by segment.

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

	General rentals	Trench safety, power and HVAC, and pump solutions	Total
Three Months Ended June 30, 2014			
Equipment rentals	$1,028	$151	$1,179
Sales of rental equipment	132	6	138
Sales of new equipment	25	12	37
Contractor supplies sales	19	3	22
Service and other revenues	17	6	23
Total revenue	1,221	178	1,399
Depreciation and amortization expense	263	36	299
Equipment rentals gross profit	426	77	503
Three Months Ended June 30, 2013			
Equipment rentals	$932	$77	$1,009
Sales of rental equipment	126	5	131
Sales of new equipment	22	2	24
Contractor supplies sales	21	2	23
Service and other revenues	17	2	19
Total revenue	1,118	88	1,206
Depreciation and amortization expense	258	12	270
Equipment rentals gross profit	366	36	402
Six Months Ended June 30, 2014			
Equipment rentals	$1,952	$232	$2,184
Sales of rental equipment	238	10	248
Sales of new equipment	49	14	63
Contractor supplies sales	36	5	41
Service and other revenues	34	7	41
Total revenue	2,309	268	2,577
Depreciation and amortization expense	522	54	576
Equipment rentals gross profit	770	112	882
Capital expenditures	981	99	1,080
Six Months Ended June 30, 2013			
Equipment rentals	$1,786	$139	$1,925
Sales of rental equipment	245	9	254
Sales of new equipment	42	3	45
Contractor supplies sales	39	4	43
Service and other revenues	36	3	39
Total revenue	2,148	158	2,306
Depreciation and amortization expense	510	26	536
Equipment rentals gross profit	661	62	723
Capital expenditures	1,003	63	1,066

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

	June 30, 2014	December 31, 2013
Total reportable segment assets		
General rentals	$10,979	$10,677
Trench safety, power and HVAC, and pump solutions (1)	1,488	554
Total assets	$12,467	$11,231

(1) The increase in the trench safety, power and HVAC, and pump solutions assets primarily reflects the impact of the National Pump acquisition discussed in note 2 to the condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Total equipment rentals gross profit	$503	$402	$882	$723
Gross profit from other lines of business	86	69	155	133
Selling, general and administrative expenses	(187)	(152)	(355)	(312)
Merger related costs	(8)	(2)	(9)	(8)
Restructuring charge	1	(5)	—	(11)
Non-rental depreciation and amortization	(70)	(62)	(130)	(126)
Interest expense, net	(187)	(118)	(312)	(236)
Interest expense- subordinated convertible debentures	—	(1)	—	(3)
Other income, net	4	—	5	1
Income before provision for income taxes	$142	$131	$236	$161

4. Restructuring Charges

Closed Restructuring Program

Between 2008 and 2011 and in recognition of the very challenging economic environment, we were intensely focused on reducing our operating costs. During this period, we reduced our employee headcount from approximately 10,900 at January 1, 2008 (the beginning of the restructuring period) to approximately 7,500 at December 31, 2011 (the end of the restructuring period). Additionally, we reduced our branch network from 697 locations at January 1, 2008 to 529 locations at December 31, 2011.

RSC Merger Related Restructuring Program

In the second quarter of 2012, we initiated a restructuring program related to severance costs and branch closure charges associated with the April 2012 acquisition of RSC. The branch closure charges principally relate to continuing lease obligations at vacant facilities closed subsequent to the RSC acquisition. As of June 30, 2014, our employee headcount is approximately 12,400 and our branch network has 883 rental locations. We do not expect to incur significant additional charges in connection with the restructuring, which was complete as of June 30, 2013 (the end of the restructuring period).

The table below provides certain information concerning our restructuring charges for the six months ended June 30, 2014:

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

Description	Reserve Balance at December 31, 2013	Charged to Costs and Expenses (1)	Payments and Other	Reserve Balance at June 30, 2014
Closed Restructuring Program				
Branch closure charges	$13	$—	$(2)	$11
Severance costs	—	—	—	—
Total	$13	$—	$(2)	$11
RSC Merger Related Restructuring Program				
Branch closure charges	$20	$—	$(6)	$14
Severance costs	2	—	(1)	1
Total	$22	$—	$(7)	$15
Total				
Branch closure charges	$33	$—	$(8)	$25
Severance costs	2	—	(1)	1
Total	$35	$—	$(9)	$26

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

5. Goodwill and Other Intangible Assets

The following table presents the changes in the carrying amount of goodwill for the six months ended June 30, 2014:

	General rentals	Trench safety, power and HVAC, and pump solutions	Total
Balance at January 1, 2014 (1)	$ 2,812	$ 141	$2,953
Goodwill related to acquisitions (2)	12	328	340
Balance at June 30, 2014 (1)	$ 2,824	$ 469	$3,293

(1) The total carrying amount of goodwill for all periods in the table above is reflected net of $1,557 of accumulated impairment charges, which were primarily recorded in our general rentals segment.

(2) Includes goodwill adjustments for the effect on goodwill of changes to net assets acquired during the measurement period, which were not significant to our previously reported operating results or financial condition.

Other intangible assets were comprised of the following at June 30, 2014 and December 31, 2013:

	June 30, 2014			
	Weighted-Average Remaining Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Amount
Non-compete agreements	45 months	$69	$24	$45
Customer relationships	12 years	$1,508	$366	$1,142
Trade names and associated trademarks	34 months	$81	$50	$31

	December 31, 2013			
	Weighted-Average Remaining Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Amount
Non-compete agreements	40 months	$54	$18	$36
Customer relationships	13 years	$1,227	$285	$942
Trade names and associated trademarks	40 months	$81	$41	$40

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

Our other intangibles assets, net at June 30, 2014 include the following assets associated with the acquisition of National Pump discussed above (see note 2 to our condensed consolidated financial statements). No residual value has been assigned to these intangible assets. The non-compete agreements are being amortized on a straight-line basis, and the customer relationships are being amortized using the sum of the years' digits method, which we believe best reflects the estimated pattern in which the economic benefits will be consumed.

	June 30, 2014	
	Weighted-Average Remaining Amortization Period	Net Carrying Amount
Non-compete agreements	6 years	$14
Customer relationships	10 years	$263

Amortization expense for other intangible assets was $53 and $44 for the three months ended June 30, 2014 and 2013, respectively, and $96 and $91 for the six months ended June 30, 2014 and 2013, respectively.

As of June 30, 2014, estimated amortization expense for other intangible assets for each of the next five years and thereafter is as follows:

2014	$104
2015	195
2016	175
2017	146
2018	126
Thereafter	472
Total	$1,218

6. Derivatives

We recognize all derivative instruments as either assets or liabilities at fair value, and recognize changes in the fair value of the derivative instruments based on the designation of the derivative. For derivative instruments that are designated and qualify as hedging instruments, we designate the hedging instrument, based upon the exposure being hedged, as either a fair value hedge or a cash flow hedge. As of June 30, 2014, we do not have any outstanding derivative instruments designated as fair value hedges. The effective portion of the changes in fair value of derivatives that are designated as cash flow hedges is recorded as a component of accumulated other comprehensive income. Amounts included in accumulated other comprehensive income for cash flow hedges are reclassified into earnings in the same period that the hedged item is recognized in earnings. The ineffective portion of changes in the fair value of derivatives designated as cash flow hedges is recorded currently in earnings. For derivative instruments that do not qualify for hedge accounting, we recognize gains or losses due to changes in fair value in our condensed consolidated statements of income during the period in which the changes in fair value occur.

We are exposed to certain risks related to our ongoing business operations. During the six months ended June 30, 2014 and 2013, the primary risks we managed using derivative instruments were diesel price risk and foreign currency exchange rate risk. At June 30, 2014, we had outstanding fixed price swap contracts on diesel purchases which were entered into to mitigate the price risk associated with forecasted purchases of diesel. During the six months ended June 30, 2013, we entered into forward contracts to purchase Canadian dollars to mitigate the foreign currency exchange rate risk associated with certain Canadian dollar denominated intercompany loans. At June 30, 2014 and December 31, 2013, there were no outstanding forward contracts to purchase Canadian dollars. The outstanding forward contracts on diesel purchases were designated and qualify as cash flow hedges and the forward contracts to purchase Canadian dollars represented derivative instruments not designated as hedging instruments.

Fixed Price Diesel Swaps

The fixed price swap contracts on diesel purchases that were outstanding at June 30, 2014 were designated and qualify as cash flow hedges and the effective portion of the gain or loss on these contracts is reported as a component of accumulated other comprehensive income and is reclassified into earnings in the period during which the hedged transaction affects earnings (i.e., when the hedged gallons of diesel are used). The remaining gain or loss on the fixed price swap contracts in excess of the cumulative change in the present value of future cash flows of the hedged item, if any (i.e., the ineffective portion), is recognized in our condensed consolidated statements of income during the current period. As of June 30, 2014, we had outstanding fixed price swap contracts covering 5.7 million gallons of diesel which will be purchased throughout 2014 and 2015.

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

Foreign Currency Forward Contracts

The forward contracts to purchase Canadian dollars represent derivative instruments not designated as hedging instruments and gains or losses due to changes in the fair value of the forward contracts are recognized in our condensed consolidated statements of income during the period in which the changes in fair value occur.

Financial Statement Presentation

As of June 30, 2014 and December 31, 2013, immaterial amounts ($1 or less) were reflected in prepaid expenses and other assets, accrued expenses and other liabilities, and accumulated other comprehensive income in our condensed consolidated balance sheets associated with the outstanding fixed price swap contracts that were designated and qualify as cash flow hedges.

The effect of our derivative instruments on our condensed consolidated statements of income for the three and six months ended June 30, 2014 and 2013 was as follows:

		Three Months Ended June 30, 2014		Three Months Ended June 30, 2013	
	Location of income (expense) recognized on derivative/hedged item	Amount of income (expense) recognized on derivative	Amount of income (expense) recognized on hedged item	Amount of income (expense) recognized on derivative	Amount of income (expense) recognized on hedged item
Derivatives designated as hedging instruments:					
Fixed price diesel swaps	Other income (expense), net (1)	$ *		$ *	
	Cost of equipment rentals, excluding depreciation (2), (3)	*	$(12)	*	$(8)
Derivatives not designated as hedging instruments:					
Foreign currency forward contracts (4)	Other income (expense), net	—	—	(2)	2

		Six Months Ended June 30, 2014		Six Months Ended June 30, 2013	
	Location of income (expense) recognized on derivative/hedged item	Amount of income (expense) recognized on derivative	Amount of income (expense) recognized on hedged item	Amount of income (expense) recognized on derivative	Amount of income (expense) recognized on hedged item
Derivatives designated as hedging instruments:					
Fixed price diesel swaps	Other income	$ *		$ *	

	(expense), net (1)				
	Cost of equipment rentals, excluding depreciation (2), (3)	*	$(22)	*	$(17)
Derivatives not designated as hedging instruments:					
Foreign currency forward contracts (4)	Other income (expense), net	—	—	(4)	4

* Amounts are insignificant (less than $1).

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

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

(3) Amounts recognized on hedged item reflect the use of 3.0 million and 2.1 million gallons of diesel covered by the fixed price swaps during the three months ended June 30, 2014 and 2013, respectively, and the use of 5.6 million and 4.3 million gallons of diesel covered by the fixed price swaps during the six months ended June 30, 2014 and 2013, respectively. These amounts are reflected, net of cash received from the counterparties to the fixed price swaps, in operating cash flows in our condensed consolidated statement of cash flows.

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

7. Fair Value Measurements

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

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

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

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

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

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

Assets and Liabilities Measured at Fair Value

Our fixed price diesel swaps contracts are Level 2 derivatives measured at fair value on a recurring basis. As of June 30, 2014 and December 31, 2013, immaterial amounts ($1 or less) were reflected in prepaid expenses and other assets, and accrued expenses and other liabilities in our condensed consolidated balance sheets, reflecting the fair values of the fixed price diesel swaps contracts. As discussed in note 6 to the condensed consolidated financial statements, we entered into the fixed price swap contracts on diesel purchases to mitigate the price risk associated with forecasted purchases of diesel. Fair value is determined based on observable market data. As of June 30, 2014, we have fixed price swap contracts that mature throughout 2014 and 2015 covering 5.7 million gallons of diesel which we will buy at the average contract price of $3.88 per gallon, while the average forward price for the hedged gallons was $3.93 per gallon as of June 30, 2014.

The fair value of the contingent cash consideration we expect to pay associated with the National Pump acquisition discussed in note 2 to our condensed consolidated financial statements was $78 as of June 30, 2014. The contingent consideration is recorded in accrued expenses and other liabilities in our condensed consolidated balance sheets, and is a Level 3 liability measured at fair value on a recurring basis. Fair value was determined using a probability weighted discounted cash flow methodology. Key inputs to the valuation included: (i) discrete scenarios of potential payouts under the two earn-out arrangements discussed in note 2 to our condensed consolidated financial statements; (ii) probability weightings assigned to each of the scenarios for each of the two earn-out payments; and (iii) a rate of return with which to discount the probability weighted payouts to present value. The discrete payout scenarios were based on the low case, base case and high case forecasts of financial performance prepared by management in connection with the acquisition. The probability weighted payments were then discounted to present value using a discount rate of 12.0 percent based on a calculated risk adjusted rate for National Pump, resulting in fair values of $61 and $17 for the first and second earn out-payments, respectively.

Fair Value of Financial Instruments

The carrying amounts reported in our condensed consolidated balance sheets for accounts receivable, accounts payable and accrued expenses and other liabilities approximate fair value due to the immediate to short-term maturity of these financial

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

instruments. The fair values of our ABL facility, accounts receivable securitization facility and capital leases approximate their book values as of June 30, 2014 and December 31, 2013. The estimated fair values of our financial instruments as of June 30, 2014 and December 31, 2013 have been calculated based upon available market information, and are presented below by level in the fair value hierarchy:

	June 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Level 1:				
Senior and senior subordinated notes	$6,066	$6,527	$5,381	$5,848
Level 2:				
4 percent Convertible Senior Notes (1)	87	93	136	149

(1) The fair value of the 4 percent Convertible Senior Notes is based on the market value of comparable notes. Consistent with the carrying amount, the fair value excludes the equity component of the notes. To exclude the equity component and calculate the fair value, we used an effective interest rate of 6.6 percent. As discussed below (see Item 3- Quantitative and Qualitative Disclosures about Market Risk), the total cost to settle the notes based on the closing price of our common stock on June 30, 2014 would be $911.

8. Debt and Subordinated Convertible Debentures

Debt consists of the following:

	June 30, 2014	December 31, 2013
URNA and subsidiaries debt:		
Accounts Receivable Securitization Facility (1)	$496	$430
$2.3 billion ABL Facility (2)	1,247	1,106
5 $^{3}/_{4}$ percent Senior Secured Notes	750	750
10 $^{1}/_{4}$ percent Senior Notes (3)	—	220
9 $^{1}/_{4}$ percent Senior Notes (4)	—	494
7 $^{3}/_{8}$ percent Senior Notes	750	750
8 $^{3}/_{8}$ percent Senior Subordinated Notes	750	750
8 $^{1}/_{4}$ percent Senior Notes	689	692
7 $^{5}/_{8}$ percent Senior Notes	1,325	1,325
6 $^{1}/_{8}$ percent Senior Notes (5)	952	400
5 $^{3}/_{4}$ percent Senior Notes (6)	850	—
Capital leases	119	120
Total URNA and subsidiaries debt	7,928	7,037
Holdings:		
4 percent Convertible Senior Notes (7)	87	136
Total debt	8,015	7,173
Less short-term portion (8)	(621)	(604)
Total long-term debt	$7,394	$6,569

(1) At June 30, 2014, $38 was available under our accounts receivable securitization facility. The interest rate applicable to the accounts receivable securitization facility was 0.8 percent at June 30, 2014. During the six months ended June 30, 2014, the monthly average amount outstanding under the accounts receivable securitization facility

was $404, and the weighted-average interest rate thereon was 0.8 percent. The maximum month-end amount outstanding under the accounts receivable securitization facility during the six months ended June 30, 2014 was $496. Borrowings under the accounts receivable securitization facility are permitted only to the extent that the face amount of the receivables in the collateral pool, net of applicable reserves, exceeds the outstanding loans. As of June 30, 2014, there were $534 of receivables, net of applicable reserves, in the collateral pool.

(2) At June 30, 2014, $1.0 billion was available under our ABL facility, net of $52 of letters of credit. The interest rate applicable to the ABL facility was 2.2 percent at June 30, 2014. During the six months ended June 30, 2014, the monthly average amount outstanding under the ABL facility was $1.0 billion, and the weighted-average interest rate thereon was 2.4 percent. The maximum month-end amount outstanding under the ABL facility during the six months ended June 30, 2014 was $1.3 billion.

(3) In January 2014, we redeemed all of our 10 $^{1}/4$ percent Senior Notes. We paid a call premium of $26 in connection with the redemption, and recognized a loss of approximately $6 in interest expense, net upon redemption. The loss represented the difference between the net carrying amount and the total purchase price of the notes.

(4) As discussed in note 2 to our condensed consolidated financial statements, in April 2014, we completed the acquisition of assets of National Pump. Using proceeds from debt issued in connection with the National Pump acquisition, as discussed below, and cash on hand, we redeemed all the outstanding 9 $^{1}/_{4}$ percent Senior Notes in April 2014. We paid a call premium of approximately $52 in connection with the redemption and recognized a loss of approximately $64 in interest expense upon redemption. The loss represented the difference between the net carrying amount and the total purchase price of the notes.

(5) In connection with the National Pump acquisition described above, in March 2014, URNA issued $525 principal amount of 6 $^{1}/_{8}$ percent Senior Notes as an add on to our existing 6 $^{1}/_{8}$ percent Senior Notes. The net proceeds from the issuance were $546 (after deducting offering expenses). The newly issued notes have identical terms, and are fungible, with the 6 $^{1}/_{8}$ percent Senior Notes outstanding at December 31, 2013. The difference between the carrying value of the 6 $^{1}/_{8}$ percent Senior Notes and the $925 principal amount relates to the $27 unamortized portion of the original issue premium recognized in conjunction with the March 2014 issuance, which is being amortized through the maturity date in 2023. The effective interest rate on the 6 $^{1}/_{8}$ percent Senior Notes is 5.7 percent.

(6) In connection with the National Pump acquisition described above, in March 2014, URNA issued $850 principal amount of 5 $^{3}/_{4}$ percent Senior Notes which are due November 15, 2024. The net proceeds from the issuance were $837 (after deducting offering expenses). The net proceeds were used to finance in part the cash purchase price of the National Pump acquisition which closed in April 2014. The 5 $^{3}/_{4}$ percent Senior Notes are unsecured and are guaranteed by Holdings and, subject to limited exceptions, URNA's domestic subsidiaries. The 5 $^{3}/_{4}$ percent Senior Notes may be redeemed on or after May 15, 2019, at specified redemption prices that range from 102.875 percent in the 12-month period commencing on May 15, 2019, to 100 percent in the 12-month period commencing on May 15, 2022 and thereafter, plus accrued and unpaid interest. The indenture governing the 5 $^{3}/_{4}$ percent Senior Notes contains certain restrictive covenants, including, among others, limitations on (1) liens; (2) additional indebtedness; (3) mergers, consolidations and acquisitions; (4) sales, transfers and other dispositions of assets; (5) loans and other investments; (6) dividends and other distributions, stock repurchases and redemptions and other restricted payments; (7) restrictions affecting subsidiaries; (8) transactions with affiliates; and (9) designations of unrestricted subsidiaries, as well as a requirement to timely file periodic reports with the SEC. Each of these covenants is subject to important exceptions and qualifications that would allow URI to engage in these activities under certain conditions. The indenture also requires that, in the event of a change of control (as defined in the indenture), URI must make an offer to purchase all of the then-outstanding 5 $^{3}/_{4}$ percent Senior Notes tendered at a purchase price in cash equal to 101 percent of the principal amount thereof, plus accrued and unpaid interest, if any, thereon.

(7) The difference between the June 30, 2014 carrying value of the 4 percent Convertible Senior Notes and the $97 principal amount reflects the $10 unamortized portion of the original issue discount recognized upon issuance of the notes, which is being amortized through the maturity date of November 15, 2015. Because the 4 percent

Convertible Senior Notes were redeemable at June 30, 2014, an amount equal to the $10 unamortized portion of the original issue discount is separately classified in our condensed consolidated balance sheets and referred to as "temporary equity." During the six months ended June 30, 2014, $59 of our 4 percent Convertible Notes were redeemed. We recognized a loss of approximately $5 in interest expense, net upon redemption. The loss represented the difference between the net carrying amount and the fair value of the debt component of the notes. Based on the price of our common stock during the second quarter of 2014, holders of the 4 percent Convertible Senior Notes have the right to redeem the notes during the third quarter of 2014 at a conversion price of $11.11 per share of common stock. Since July 1, 2014 (the beginning of the third quarter), none of the 4 percent Convertible Senior Notes were redeemed, however we have received redemption notices for $52 of the 4 percent Convertible Senior Notes which we expect to be redeemed in the third quarter of 2014.

(8) As of June 30, 2014, our short-term debt primarily reflects $496 of borrowings under our accounts receivable securitization facility and $87 of 4 percent Convertible Senior Notes. The 4 percent Convertible Senior Notes mature in November 2015, but are reflected as short-term debt because they are redeemable at June 30, 2014.

Convertible Note Hedge Transactions

In connection with the November 2009 issuance of $173 aggregate principal amount of 4 percent Convertible Senior Notes, Holdings entered into convertible note hedge transactions with option counterparties. The convertible note hedge transactions cost $26, and decreased additional paid-in capital by $17, net of taxes, in our accompanying condensed consolidated statements of stockholders' equity. The convertible note hedge transactions cover, subject to anti-dilution adjustments, 4.4 million shares of our common stock. The convertible note hedge transactions are intended to reduce, subject to a limit, the potential dilution with respect to our common stock upon conversion of the 4 percent Convertible Senior Notes. The effect of the convertible note hedge transactions is to increase the effective conversion price to $15.56 per share, equal to an approximately 75 percent premium over the $8.89 closing price of our common stock at issuance. The effective conversion price is subject to change in certain circumstances, such as if the 4 percent Convertible Senior Notes are converted prior to May 15, 2015. In the event the market value of our common stock exceeds the effective conversion price per share, the settlement amount received from such transactions will only partially offset the potential dilution. For example, if, at the time of exercise of the conversion right, the price of our common stock was $100.00 or $105.00 per share, assuming an effective conversion price of $15.56 per share, on a net basis, we would issue 7.5 million or 7.6 million shares, respectively.

Loan Covenants and Compliance

As of June 30, 2014, we were in compliance with the covenants and other provisions of the ABL facility, the accounts receivable securitization facility and the senior notes. Any failure to be in compliance with any material provision or covenant of these agreements could have a material adverse effect on our liquidity and operations.

In October 2011, we amended the ABL facility. The only material financial covenants which currently exist relate to the fixed charge coverage ratio and the senior secured leverage ratio under the ABL facility. Since the October 2011 amendment of the ABL facility and through June 30, 2014, availability under the ABL facility has exceeded the required threshold and, as a result, these maintenance covenants have been inapplicable. Subject to certain limited exceptions specified in the amended ABL facility, the fixed charge coverage ratio and the senior secured leverage ratio under the amended ABL facility will only apply in the future if availability under the amended ABL facility falls below the greater of 10 percent of the maximum revolver amount under the amended ABL facility and $150. Under our accounts receivable securitization facility, we are required, among other things, to maintain certain financial tests relating to: (i) the default ratio, (ii) the delinquency ratio, (iii) the dilution ratio and (iv) days sales outstanding.

9. Legal and Regulatory Matters

In addition to the disclosures provided in note 14 to our consolidated financial statements for the year ended December 31, 2013 filed on Form 10-K on January 22, 2014, we are also subject to a number of claims and proceedings that generally arise in the ordinary conduct of our business. These matters include, but are not limited to, general liability claims (including personal injury, property and auto claims), indemnification and guarantee obligations, employee injuries and employment-related claims, self-insurance obligations and contract and real estate matters. Based on advice of counsel and available information, including current status or stage of proceeding, and taking into account accruals for matters where we have established them, we currently believe that any liabilities ultimately resulting from these ordinary course claims and proceedings will not, individually or in the aggregate, have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

10. Earnings Per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding. Diluted earnings per share is computed by dividing net income available to common stockholders by the weighted-average number of common shares plus the effect of dilutive potential common shares outstanding during the period. Diluted earnings per share for the six months ended June 30, 2013 excludes the impact of approximately 0.6 million common stock equivalents since the effect of including these securities would be anti-dilutive. The following table sets forth the computation of basic and diluted earnings per share (shares in thousands):

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

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Numerator:				
Net income available to common stockholders	$94	$83	154	104
Denominator:				
Denominator for basic earnings per share—weighted-average common shares	97,002	93,895	96,118	93,604
Effect of dilutive securities:				
Employee stock options and warrants	413	498	425	557
Convertible subordinated notes—4 percent	7,758	11,946	9,005	11,908
Restricted stock units	421	376	475	488
Denominator for diluted earnings per share—adjusted weighted-average common shares	105,594	106,715	106,023	106,557
Basic earnings per share	$0.98	$0.89	$1.61	$1.12
Diluted earnings per share	$0.90	$0.78	$1.46	$0.98

11. Condensed Consolidating Financial Information of Guarantor Subsidiaries

URNA is 100 percent owned by Holdings (“Parent”) and has outstanding (i) certain indebtedness that is guaranteed by Parent, (ii) certain indebtedness that is guaranteed by both Parent and, with the exception of its U.S. special purpose vehicle which holds receivable assets relating to the Company’s accounts receivable securitization (the “SPV”), all of URNA’s U.S. subsidiaries (the “guarantor subsidiaries”) and (iii) certain indebtedness that is guaranteed only by the guarantor subsidiaries (specifically, the 10 $^{1}/4$ percent Senior Notes and the 8 $^{1}/4$ percent Senior Notes). However, this indebtedness is not guaranteed by URNA’s foreign subsidiaries and the SPV (together, the “non-guarantor subsidiaries”). The guarantor subsidiaries are all 100 percent-owned and the guarantees are made on a joint and several basis. The guarantees are not full and unconditional because a guarantor subsidiary can be automatically released and relieved of its obligations under certain circumstances, including sale of the subsidiary guarantor, the sale of all or substantially all of the subsidiary guarantor's assets, the requirements for legal defeasance or covenant defeasance under the applicable indenture being met or designating the subsidiary guarantor as an unrestricted subsidiary for purposes of the applicable covenants. The guarantees are also subject to subordination provisions (to the same extent that the obligations of the issuer under the relevant notes are subordinated to other debt of the issuer) and to a standard limitation which provides that the maximum amount guaranteed by each guarantor will not exceed the maximum amount that can be guaranteed without making the guarantee void under fraudulent conveyance laws. Based on our understanding of Rule 3-10 of Regulation S-X ("Rule 3-10"), we believe that the guarantees of the guarantor subsidiaries comply with the conditions set forth in Rule 3-10 and therefore continue to utilize Rule 3-10 to present condensed consolidating financial information for Holdings, URNA, the guarantor subsidiaries and the non-guarantor subsidiaries. Separate consolidated financial statements of the guarantor subsidiaries have not been presented because management believes that such information would not be material to investors. However, condensed consolidating financial information is presented. Certain reclassifications of prior year's amounts have been made to conform to the current year’s presentation.

URNA covenants in the ABL facility, accounts receivable securitization facility and the other agreements governing our debt impose operating and financial restrictions on URNA, Parent and the guarantor subsidiaries, including limitations on the ability to pay dividends. As of June 30, 2014, the amount available for distribution under the most restrictive of these covenants was $421.

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

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UNITED RENTALS, INC.
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(Dollars in millions, except per share data, unless otherwise indicated)

CONDENSED CONSOLIDATING BALANCE SHEET
June 30, 2014

	Parent	URNA	Guarantor Subsidiaries	Non-Guarantor Subsidiaries Foreign	Non-Guarantor Subsidiaries SPV	Eliminations	Total
ASSETS							
Cash and cash equivalents	$—	$26	$—	$144	$—	$—	$170
Accounts receivable, net	—	31	—	127	686	—	844
Intercompany receivable (payable)	329	(264)	(57)	(143)	—	135	—
Inventory	—	104	—	15	—	—	119
Prepaid expenses and other assets	—	56	2	13	—	—	71
Deferred taxes	—	190	—	2	—	—	192
Total current assets	329	143	(55)	158	686	135	1,396
Rental equipment, net	—	5,384	—	645	—	—	6,029
Property and equipment, net	48	310	21	44	—	—	423
Investments in subsidiaries	1,539	1,167	1,036	—	—	(3,742)	—
Goodwill, net	—	3,000	—				