

UNITED RENTALS INC /DE
Form S-3/A
September 06, 2001

As filed with the Securities and Exchange Commission on September 6, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

United Rentals, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware 06-1522496
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No)

Five Greenwich Office Park
Greenwich, Connecticut 06830
(203) 622-3131
(Address, Including Zip Code, and Telephone Number, Including Area Code,
of Registrant's Principal Executive Offices)

Michael J. Nolan, Chief Financial Officer
United Rentals, Inc.
Five Greenwich Office Park
Greenwich, Connecticut 06830
(203) 622-3131
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code,
of Agent For Service)

A copy of all communications, including communications sent
to the agent for service, should be sent to:

Joseph Ehrenreich, Esq. Malcolm E. Landau, Esq. Kris F. Heinzelman, Esq.
Ehrenreich Eilenberg & Krause LLP Weil, Gotshal & Manges LLP Cravath, Swaine & Moore
11 East 44th Street 767 Fifth Avenue Worldwide Plaza

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New York, NY 10017
(212) 986-9700

New York, NY 10153
(212) 310-8000

825 Eighth Avenue
New York, NY 10019
(212) 474-1000

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, check the following box.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box:

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated September 6, 2001.

9,000,000 Shares

[LOGO] United/TM/
Rentals

Common Stock

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All of the shares of common stock in the offering are being sold by The Colburn Music Fund. United Rentals, Inc. will not receive any of the proceeds from the sale of the shares.

United Rentals' common stock is traded on the New York Stock Exchange under the symbol "URI". The last reported sale price of the common stock on August 14, 2001, was \$23.45 per share.

See "Risk Factors" beginning on page 9 to read about factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
	-----	-----
Initial price to public.....	\$	\$
Underwriting discount.....	\$	\$
Proceeds, before expenses, to the selling stockholder	\$	\$

To the extent that the underwriters sell more than 9,000,000 shares of common stock, the underwriters have the option to purchase up to an additional 1,350,000 shares from the selling stockholder at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on , 2001.

Goldman, Sachs & Co. Credit Suisse First Boston
JPMorgan Deutsche Banc Alex. Brown
Legg Mason Wood Walker
Incorporated

Prospectus dated , 2001.

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in, or incorporated by reference in, this prospectus are forward-looking in nature. Such statements can be identified by the use of forward-looking terminology such as "believe," "expect," "may," "will," "should," "seek," "on-track," "plan," "intend" or "anticipate," or the

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negative thereof or comparable terminology, or by discussions of strategy. You are cautioned that our business and operations are subject to a variety of risks and uncertainties and, consequently, our actual results may materially differ from those projected by any forward-looking statements. Certain of such risks and uncertainties are discussed below under the heading "Risk Factors." We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances after the date any such statement is made.

WHERE YOU CAN FIND MORE INFORMATION

We file reports, proxy statements, and other information with the SEC. Such reports, proxy statements, and other information can be read and copied at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, including our company.

INCORPORATION BY REFERENCE

The SEC allows us to "incorporate by reference" the documents that we file with the SEC. This means that we can disclose important information to you by referring you to those documents. Any information we incorporate in this manner is considered part of this prospectus; however, to the extent that there are any inconsistencies between information presented in this prospectus and information contained in incorporated documents filed with the SEC before the date of this prospectus, the information in this prospectus shall be deemed to supersede the earlier information. Any information we file with the SEC after the date of this prospectus and until this offering is completed will automatically update and supersede the information contained in this prospectus.

We incorporate by reference the following documents that we have filed with the SEC and any filings that we will make with the SEC in the future under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until this offering is completed:

- . Annual Report on Form 10-K for the year ended December 31, 2000;
- . The following Quarterly Reports on Form 10-Q: (1) Report for the quarter ended March 31, 2001, and (2) Report for the quarter ended June 30, 2001;
- . The following Current Reports on Form 8-K: (1) Report filed on January 2, 2001, (2) Report filed on March 2, 2001, (3) Report filed on April 16, 2001, (4) Report filed on May 1, 2001 and (5) Report filed on July 27, 2001;
- . Definitive Proxy Statement on Schedule 14A filed on April 30, 2001; and
- . Registration Statement on Form 8-A dated November 27, 1997 (filed on December 3, 1997), and Registration Statement on Form 8-A dated August 6, 1998.

We will provide without charge, upon written or oral request, a copy of any

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or all of the documents which are incorporated by reference into this prospectus. Requests should be directed to: United Rentals, Inc., Attention: Corporate Secretary, Five Greenwich Office Park, Greenwich, Connecticut 06830, telephone number: (203) 622-3131.

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PROSPECTUS SUMMARY

This summary may not include all the information that is important to you. You should read the entire prospectus and the documents incorporated by reference before making an investment decision. Unless otherwise indicated, all data in this prospectus assumes that the underwriters will not exercise the over-allotment option.

United Rentals

United Rentals is the largest equipment rental company in North America with more than 740 locations in 47 states, seven Canadian provinces and Mexico. We offer for rent over 600 different types of equipment to customers that include construction and industrial companies, manufacturers, utilities, municipalities, homeowners and others. In 2000, we served more than 1.2 million customers, completed over 8.4 million rental transactions and generated revenues and net income of \$2.9 billion and \$176.4 million, respectively.

We have the largest fleet of rental equipment in the world, with over 500,000 units having an original purchase price of approximately \$3.6 billion. Our fleet includes:

- . General construction and industrial equipment, such as backhoes, skid-steer loaders, forklifts, earth moving equipment, material handling equipment, compressors, pumps and generators;
- . Aerial work platforms, such as scissor lifts and boom lifts;
- . General tools and light equipment, such as power washers, water pumps, heaters and hand tools;
- . Traffic control equipment, such as barricades, cones, warning lights, message boards and pavement marking systems;
- . Trench safety equipment for below ground work, such as trench shields, aluminum hydraulic shoring systems, slide rails, crossing plates, construction lasers and line testing equipment; and
- . Special event equipment, such as large tents, light towers and power units used for sporting, corporate and other events.

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In addition to renting equipment, we sell used rental equipment, act as a dealer for new equipment and sell related merchandise, parts and service.

We estimate that the U.S. equipment rental industry has grown from approximately \$6.5 billion in annual rental revenues in 1990 to over \$25 billion in 2000, representing a compound annual growth rate of approximately 14.5%. We believe that the principal driver of growth in the equipment rental industry, in addition to general economic expansion, has been the increasing recognition by equipment users of the many advantages that equipment rental may offer compared with ownership. They recognize that by renting they can:

- . avoid the large capital investment required for equipment purchases;
- . access a broad selection of equipment and select the equipment best suited for each particular job;
- . reduce storage and maintenance costs; and
- . access the latest technology without investing in new equipment.

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While the construction industry has to date been the principal user of rental equipment, industrial companies, utilities and others are increasingly using rental equipment for plant maintenance, plant turnarounds and other functions requiring the periodic use of equipment. The market for rental equipment is also benefiting from increased government funding for infrastructure projects, such as funding under the U.S. Transportation Equity Act for the 21st Century ("TEA-21") and the Aviation Investment and Reform Act for the 21st Century ("AIR-21"). TEA-21 earmarks \$175 billion for highway construction and \$42 billion for transit spending over the 1998-2003 fiscal period, a 40% increase over the prior six-year period. AIR-21 provides for \$40 billion in construction spending over three years to support the FAA's airport improvement programs.

Competitive Advantages

We believe that we benefit from the following competitive advantages:

Large and Diverse Rental Fleet. Our rental fleet is the largest and most comprehensive in the industry, which allows us to:

- . attract customers by providing "one-stop" shopping;
- . serve a diverse customer base and reduce our dependence on any particular customer or group of customers; and
- . serve customers that require substantial quantities or wide varieties of equipment.

Significant Purchasing Power. We purchase large amounts of equipment, merchandise and other items, which enables us to negotiate favorable pricing, warranty and other terms with our vendors. Our purchasing power is further increased by our ongoing efforts to consolidate our vendor base. For example, we reduced the number of our primary equipment suppliers from 111 to 28 in 2000. This reduction allowed us to lower our equipment purchase costs by approximately \$150 million in 2000 and should enable us to save additional

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amounts in 2001. We expect to realize additional savings by consolidating our merchandise suppliers and negotiating more favorable warranty terms with key vendors.

Operating Efficiencies. We generally group our branches into clusters of 10 to 30 locations that are in the same geographic area. Our information technology systems allow each branch to access all available equipment within a cluster. We believe that our cluster strategy produces significant operating efficiencies and increases equipment utilization by enabling us to: (1) market equipment through all branches within a cluster, (2) cross-market equipment specialties of different branches within each cluster and (3) reduce costs by consolidating functions that are common to our more than 740 branches, such as payroll, accounts payable and credit and collection, into 24 credit offices and three service centers. In the second quarter of 2001, approximately 10.7% of our total rental revenue was attributable to equipment sharing among branches.

Information Technology Systems. Our information technology systems facilitate our ability to make rapid and informed decisions, respond quickly to changing market conditions, and share equipment among branches. These systems allow: (1) management to obtain a wide range of operating and financial data, (2) branch personnel to access and manage branch level data, such as customer requirements, equipment availability and maintenance histories, and (3) customers to access their accounts online. These systems promote equipment sharing among branches by enabling branch personnel to locate needed equipment within a geographic region, determine its closest location and

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arrange for its delivery to a customer's work site. We have an in-house team of approximately 100 information technology specialists that supports our systems and extends them to new locations.

Geographic and Customer Diversity. We have more than 740 branches in 47 states, seven Canadian provinces and Mexico and served more than 1.2 million customers in 2000. Our customers are diverse, ranging from Fortune 500 companies to small companies and homeowners, and in 2000 our top ten customers accounted for approximately 2% of our revenues. We believe that our geographic and customer diversity provide us with many advantages including: (1) enabling us to better serve National Account customers with multiple locations, (2) helping us achieve favorable resale prices by allowing us to access used equipment resale markets across the country, (3) reducing our dependence on any particular customer and (4) reducing the impact that fluctuations in regional economic conditions have on our overall financial performance.

National Account Program. Our National Account sales force is dedicated to establishing and expanding relationships with larger companies, particularly those with a national or multi-regional presence. We offer our National Account customers the benefits of a consistent level of service across North America and a single point of contact for all their equipment needs. Our National Account team includes 39 professionals serving over 1,500 National Account customers, including more than 130 new accounts added in the second quarter of 2001. We estimate our revenues from National Account customers will increase to approximately \$400.0 million in 2001 from \$245.0 million in 2000.

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Risk Management and Safety Programs. We place great emphasis on risk reduction and safety and believe that we have one of the most comprehensive risk management and safety programs in the industry. Our risk management department is staffed by 41 experienced professionals and is responsible for implementing our safety programs and procedures, developing our employee and customer training programs and managing any claims against us.

Experienced Senior Management. Our senior management team is comprised of executives with proven track records. Our management team includes Bradley S. Jacobs, John N. Milne and Michael J. Nolan, who together with others founded our company in September 1997, and Wayland R. Hicks who joined them shortly thereafter. Prior to the founding of our company, Mr. Jacobs served as the Chairman and Chief Executive Officer of United Waste Systems, Inc., which he founded in 1989, and Messrs. Milne and Nolan served as members of the United Waste senior management team for periods of seven and six years, respectively. United Waste was sold in August 1997 and, at the time, was the sixth largest provider of integrated, non-hazardous solid waste management services in the United States. Mr. Hicks, prior to joining our company, held senior executive positions at Xerox Corporation, where he worked for 28 years, including Executive Vice President, Corporate Operations and Executive Vice President, Corporate Marketing and Customer Support Operations. Mr. Hicks also served as Vice Chairman and Chief Executive Officer of Nextel Communications Corp. (1994-1995).

Strong and Motivated Branch Management. Each of our branches has a full-time branch manager who is supervised by one of our 63 district managers and nine regional vice presidents. We believe that our managers are among the most knowledgeable and experienced in the industry, and we empower them--within budgetary guidelines--to make day-to-day decisions concerning staffing, pricing, equipment purchasing and other branch matters. Management closely tracks branch, district and regional performance with extensive systems and controls, including performance benchmarks and detailed monthly operating reviews. We promote equipment sharing among branches by linking the compensation of branch managers and other personnel to their branch's financial performance and return on assets.

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Flexible Business Strategy. We generate significant cash from operations that is available for growth investment or debt reduction. In response to the slowing economy at the beginning of this year, we decreased the rate at which we purchase new equipment, open new locations and make acquisitions, thereby increasing cash available for debt reduction. We expect to accelerate our growth activities as economic conditions warrant.

Strategy

We have established the following key business strategies:

Enhance Industry Leadership Position. We intend to use our extensive fleet, broad geographic coverage, advanced information technology systems and depth of experience of our senior and branch management to generate further growth and increase our market share by:

- . actively managing the composition and size of our fleet to meet customer needs and respond to local demand;
- . promoting equipment sharing and cross-marketing of equipment specialties

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among branches in geographic regions;

- . focusing on providing outstanding customer service and support;
- . marketing our services to existing and potential National Account customers that can benefit from our ability to provide a broad selection of equipment and a consistently high level of service throughout North America;
- . marketing our extensive fleet of specialized lines of equipment, including (1) aerial work platforms for use in large projects requiring significant amounts of equipment for extended periods of time, (2) traffic control equipment for use in infrastructure projects and (3) trench safety equipment required for use in below ground work in order to comply with government worker safety standards; and
- . training our sales force and branch personnel in value-added sales techniques to achieve customer satisfaction and maximize the value of each transaction.

Maintain Disciplined Approach to Growth Through New Branches and Acquisitions. We intend to continue to selectively open new branches and make acquisitions that will expand our geographic reach, enhance our operating efficiency and increase our market share. In seeking acquisition candidates, we generally focus on those that have the potential to be immediately accretive to earnings.

Rapidly Adapt to Changing Economic Conditions. We have made significant investments in new equipment over the past several years and, as a result, have one of the most modern rental fleets in the industry. The young age of our fleet gives us the flexibility to respond to an economic downturn by reducing the rate at which we purchase new equipment and sell used equipment. We anticipate significantly increasing our free cash flow from operations in 2001 by reducing our equipment expenditures to approximately \$400 million, compared to \$962 million in 2000.

The Offering

Common stock offered by the selling stockholder.. 9,000,000 shares

Common stock to be outstanding after the offering 73,251,558 shares(1)

New York Stock Exchange Symbol..... URI

Use of Proceeds..... United Rentals will not receive any proceeds from this offering.

(1) We calculated the outstanding shares based on the number of shares outstanding as of August 14, 2001. The outstanding shares do not include: (i) 12,000,000 shares issuable upon conversion of outstanding preferred shares of United Rentals, which provide for a conversion price of \$25 per

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share, (ii) 5,000,000 shares issuable upon conversion of outstanding preferred shares of United Rentals, which provide for a conversion price of \$30 per share, (iii) 6,875,580 shares issuable upon conversion of outstanding preferred securities of a subsidiary trust of United Rentals, which provide for a conversion price of \$43.625 per share, (iv) 6,808,581 shares issuable upon the exercise of outstanding warrants, which provide for a weighted average exercise price of \$11.83 per share, (v) 16,546,567 shares issuable upon the exercise of outstanding options, which provide for a weighted average exercise price of \$20.29 per share, and (vi) 232,586 shares issuable upon conversion of outstanding debt of United Rentals, which provide for a weighted average conversion price of \$33.25 per share.

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Summary Consolidated Financial Information

The tables below present selected financial information for our company. You should read this information together with (1) the information set forth under "Capitalization," "Selected Consolidated Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and (2) the consolidated financial statements of our company and the related notes which are included herein.

Certain of our acquisitions were accounted for as purchases and certain acquisitions were accounted for as poolings-of-interests, including our September 1998 merger with U.S. Rentals, Inc. For further information concerning the accounting for these acquisitions, see (1) note 3 to the audited consolidated financial statements of our company included herein, and (2) note 2 to the unaudited consolidated financial statements of our company included herein.

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Summary Consolidated Financial Information

	Year Ended December 31,			Six Months Ended June 30,	
	1998	1999	2000	2000	2001

	(dollars in millions, except per share data)				
Income statement data:					
Total revenues.....	\$1,220	\$2,234	\$2,919	\$1,309	\$1,387
Gross profit.....	423	825	1,089	478	489
Restructuring charge.....					29
Operating income.....	145	409	548	226	185
Interest expense.....	64	140	229	106	115
Preferred dividends of a subsidiary trust.....	8	20	20	10	10
Income before provision for income taxes and extraordinary item.....	78	242	301	110	53

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Extraordinary items, net(1).....	21				11
Net income(2).....	13	143	176	65	17
Basic earnings per share before extraordinary item..	\$ 0.53	\$ 2.00	\$ 2.48	\$ 0.90	\$ 0.40
Diluted earnings per share before extraordinary item	\$ 0.48	\$ 1.53	\$ 1.89	\$ 0.70	\$ 0.31
Basic earnings per share(2).....	\$ 0.20	\$ 2.00	\$ 2.48	\$ 0.90	\$ 0.24
Diluted earnings per share(2).....	\$ 0.18	\$ 1.53	\$ 1.89	\$ 0.70	\$ 0.18

As of June 30, 2001

(dollars in millions)

Balance sheet data:

Cash and cash equivalents.....	\$ 36
Rental equipment, net.....	1,851
Goodwill, net(3).....	2,200
Total assets.....	5,315
Total debt.....	2,760
Company-obligated mandatorily redeemable convertible preferred securities of a subsidiary trust.....	300
Stockholders' equity.....	1,541

- (1) We recorded an extraordinary item (net of income taxes) of \$21.3 million in 1998 and an extraordinary item (net of income taxes) of \$11.3 million in 2001. Such charge in 1998 resulted from the early extinguishment of certain debt and primarily reflected prepayment penalties on certain debt of U.S. Rentals. Such charge in 2001 resulted from the refinancing of certain debt and primarily reflected the write-off of deferred financing fees.
- (2) Our earnings during 1998 were impacted by merger-related expenses of \$47.2 million (\$33.2 million net of taxes or \$0.45 per diluted share), a \$4.8 million (\$0.07 per diluted share) 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 (\$0.30 per diluted share). Our earnings during 1999 were impacted by \$18.2 million (\$10.8 million net of taxes or \$0.12 per diluted share) of expenses related to a terminated tender offer. Our earnings during 2001 were impacted by a restructuring charge of \$28.9 million (\$19.2 million net of taxes or \$0.20 per diluted share), a \$7.8 million (\$5.2 million net of taxes or \$0.06 per diluted share) charge relating to refinancing costs of a synthetic lease and an extraordinary item (net of income taxes) of \$11.3 million (\$0.13 per diluted share).
- (3) Goodwill is defined as the excess of cost over the fair value of identifiable net assets of businesses acquired and is amortized on a straight-line basis over forty years.

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RISK FACTORS

In addition to the other information in this document, you should carefully consider the following factors before making an investment decision.

A decline in construction and industrial activities could adversely affect our revenues and operating results by decreasing the demand for our equipment or the prices that we can charge.

Our equipment is principally used in connection with construction and industrial activities. Consequently, a downturn in construction or industrial activity may lead to a decrease in the demand for our equipment or the prices that we can charge. Any such decrease could adversely affect our revenues and operating results. We have identified below certain of the factors which may cause such a downturn, either temporarily or long-term:

- . a continuation or a worsening of the recent slow-down of the economy;
- . an increase in interest rates; or
- . adverse weather conditions which may temporarily affect a particular region.

In addition, demand for our equipment may not reach projected levels in the event that funding for highway and other construction projects under government programs, such as the Transportation Equity Act for the 21st Century ("TEA-21") or the Aviation Investment and Reform Act for the 21st Century ("AIR-21"), does not reach expected levels.

If we lose any member of our senior management team and are unable to find a suitable replacement, we may not have the depth of senior management resources required to efficiently manage our business and execute our growth strategy.

Our success is highly dependent on the experience and skills of our senior management team. If we lose the services of any member of this team and are unable to find a suitable replacement, we may not have the depth of senior management resources required to efficiently manage our business and execute our growth strategy. For information on our employment and severance arrangements with senior management, see "Management--Employment Agreements and Change-in-Control Agreements." We do not maintain "key man" life insurance with respect to members of senior management.

Our industry is highly competitive, and competitive pressures could lead to a decrease in our market share or in the prices that we can charge.

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The equipment rental industry is highly fragmented and competitive. Our competitors primarily include small, independent businesses with one or two rental locations, regional competitors which operate in one or more states, public companies or divisions of public companies, and equipment vendors and dealers who both sell and rent equipment directly to customers. We may in the future encounter increased competition from our existing competitors or from new companies. In addition, equipment manufacturers may commence or increase their existing efforts relating to renting and selling equipment directly to our customers or potential customers. Competitive pressures could adversely affect our revenues and operating results by decreasing our market share or depressing the prices that we can charge.

Our operating results may fluctuate which could affect the trading value of our common stock.

We expect that our revenues and operating results may fluctuate from quarter to quarter or over the longer term due to a number of factors, including:

- . seasonal rental patterns of our customers, with rental activity tending to be lower in the winter;
- . our recent acquisition of businesses that specialize in renting traffic control equipment, which tend to operate at a loss during the first quarter;
- . the timing of expenditures for new equipment and the disposition of used equipment;
- . changes in demand for our equipment or the prices therefor due to changes in economic conditions, competition or other factors;

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- . changes in the interest rates applicable to our floating rate debt;
- . if we determine that a potential acquisition will not be consummated, the need to charge against earnings any expenditures relating to such transaction (such as financing commitment fees, merger and acquisition advisory fees and professional fees) previously capitalized; and
- . the possible need, from time to time, to take other write-offs or special charges due to a variety of occurrences, such as store consolidations or closings or the refinancing of existing indebtedness.

Fluctuations in our operating results could adversely affect the trading value of our common stock.

Our substantial indebtedness will require us to devote a substantial portion of our cash flow to debt service and could, among other things, constrain our ability to obtain additional financing and make it more difficult for us to cope with a downturn in our business.

We have a substantial amount of indebtedness. Specifically, on June 30,

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2001, our total indebtedness was approximately \$2,759.7 million, of which approximately \$1,327.7 million was secured indebtedness. Our substantial indebtedness has the potential to affect us adversely in a number of ways. For example, it will or could:

- . require us to devote a substantial portion of our cash flow to debt service, reducing the funds available for other purposes;
- . constrain our ability to obtain additional financing, particularly since substantially all of our assets are subject to security interests relating to existing indebtedness; or
- . make it difficult for us to cope with a downturn in our business or a decrease in our cash flow.

Furthermore, if we are unable to service our indebtedness and fund our business, we will be forced to adopt an alternative strategy that may include:

- . reducing or delaying capital expenditures;
- . limiting our growth;
- . seeking additional capital;
- . selling assets; or
- . restructuring or refinancing our indebtedness.

We cannot assure you that any of these strategies could be effected on favorable terms or at all.

An increase in market interest rates would increase our interest expense and our debt service obligations because some of our debt bears interest at variable rates.

A portion of our indebtedness bears interest at variable rates that are linked to changing market interest rates. As a result, an increase in market interest rates would increase our interest expense and our debt service

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obligations. On June 30, 2001, we had \$1,295.0 million of variable rate indebtedness.

If we are unable to obtain additional capital as required, we may be unable to fund the capital outlays required for the success of our business, including those relating to purchasing equipment, making acquisitions, opening new rental locations and refinancing existing indebtedness.

If the cash that we generate from our business, together with cash that we may borrow under our credit facility, is not sufficient to fund our capital requirements, we will require additional debt and/or equity financing. We cannot, however, be certain that any additional financing will be available or, if available, will be available on terms that are satisfactory to us. If we are unable to obtain sufficient additional capital in the future, we may be unable to fund the capital outlays required for the success of our business, including those relating to purchasing equipment, making acquisitions, opening new rental locations and refinancing existing indebtedness.

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Restrictive covenants could adversely affect our business by limiting our flexibility.

We are subject to various restrictive financial and operating covenants under the agreements governing our indebtedness. These covenants limit or prohibit, among other things, our ability to incur indebtedness, make prepayments of certain indebtedness, make investments, create liens, make acquisitions, sell assets and engage in mergers and acquisitions. These covenants could adversely affect our business by significantly limiting our operating and financial flexibility.

We have made acquisitions, which entails certain risks. We cannot guarantee that we will realize the expected benefits from our acquisitions or that our existing operations will not be harmed as a result of acquisitions.

We have grown in part through acquisitions and may continue to do so. The making of acquisitions entails certain risks, including:

- . unrecorded liabilities of acquired companies that we fail to discover during our due diligence investigations;
- . difficulty in assimilating the operations and personnel of the acquired company with our existing operations;
- . loss of key employees of the acquired company; and

- . difficulty maintaining uniform standards, controls, procedures and policies.

We cannot guarantee that we will realize the expected benefits from our acquisitions or that our existing operations will not be harmed as a result of acquisitions.

Goodwill related to acquisitions represents a substantial portion of our total assets. If the fair value of the goodwill should drop below the recorded value, we would be required to write off the excess goodwill, which could adversely affect our operating results.

At June 30, 2001, we had on our balance sheet net goodwill in the amount of \$2.2 billion, which represents approximately 41.4% of our total assets at such date. This goodwill is an intangible asset and represents the excess of the purchase price that we paid for acquired businesses over the estimated fair market value of the net assets of those businesses. If the fair value of the goodwill, determined in accordance with applicable accounting standards, were to fall below the recorded value shown on the balance sheet, we would be required to write off the excess goodwill. Any write-off would be treated as an expense and would adversely affect our operating results.

Disruptions in our information technology systems could adversely affect our operating results by limiting our capacity to effectively monitor and control our operations.

Our information technology systems facilitate our ability to monitor and control our operations and adjust to changing market conditions. Any disruptions in these systems or the failure of these systems to operate as expected could, depending on the magnitude of the problem, adversely affect our operating results by limiting our capacity to effectively monitor and control our operations and adjust to changing market conditions.

We are exposed to various possible claims relating to our business, and our insurance may not fully protect us.

We are exposed to various possible claims relating to our business. These possible claims include those relating to (1) personal injury or death caused by equipment rented or sold by us, (2) motor vehicle accidents involving our delivery and service personnel and (3) employment related claims. We carry a broad range of insurance for the protection of our assets and operations. However, such insurance may not fully protect us for a number of reasons, including:

- . our coverage is subject to a deductible of \$1.0 million and limited to a maximum of \$98.0 million per occurrence;

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- . we do not maintain coverage for environmental liability (other than legally required fuel storage tank coverage), since we believe that the cost for such coverage is high relative to the benefit that it provides; and
- . certain types of claims, such as claims for punitive damages or for damages arising from intentional misconduct, which are often alleged in third party lawsuits, might not be covered by our insurance.

If we are found liable for any significant claims that are not covered by insurance, our operating results could be adversely affected. We cannot be certain that insurance will continue to be available to us on economically reasonable terms, if at all.

We are subject to numerous environmental and safety regulations. If we are required to incur compliance or remediation costs that are not currently anticipated our operating results could be hurt.

Our operations are subject to numerous laws governing environmental protection and occupational health and safety matters. These laws regulate such issues as wastewater, stormwater, solid and hazardous wastes and materials, and air quality. Under these laws, we may be liable for, among other things, (1) the costs of investigating and remediating contamination at our sites as well as sites to which we sent hazardous wastes for disposal or treatment regardless of fault and (2) fines and penalties for non-compliance. Our operations generally do not raise significant environmental risks, but we use hazardous materials to clean and maintain equipment, and dispose of solid and hazardous waste and wastewater from equipment washing, and store and dispense petroleum products from underground and above-ground storage tanks located at certain of our locations.

Based on the conditions currently known to us, we do not believe that any pending or likely remediation and compliance costs will have a material adverse effect on our business. We cannot be certain, however, as to the potential financial impact on our business if new adverse environmental conditions are discovered or environmental and safety requirements become more stringent. If we are required to incur environmental compliance or remediation costs that are not currently anticipated by us, our business could be adversely affected depending on the magnitude of the cost.

Labor disputes could disrupt our ability to serve our customers or lead to higher labor costs.

We have approximately 1,207 employees that are represented by unions and covered by collective bargaining agreements. If we should experience a prolonged labor dispute involving a significant number of our employees, our ability to serve our customers could be adversely affected. Furthermore, our labor costs could increase as a result of the settlement of actual or threatened labor disputes.

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Our operations outside the United States are subject to the risks normally associated with international operations which could adversely affect our operating results.

Our operations outside the United States are subject to the risks normally associated with international operations. These include (1) the need to convert currencies, which could result in a gain or loss depending on fluctuations in exchange rates, (2) the need to comply with foreign laws and (3) the possibility of political or economic instability in foreign countries.

Absence of dividends could reduce our attractiveness to investors.

We have never paid any dividends on our common stock and have no plans to pay any such dividends in the foreseeable future. Furthermore, certain of the agreements governing our outstanding indebtedness prohibit us from paying dividends on our common stock or restrict our ability to pay such dividends. See "Dividend Policy." As a result, our stock may be less attractive to certain investors than the stock of dividend-paying companies.

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Shares eligible for future sale could adversely affect the market price of our common stock.

If our stockholders sell substantial amounts of our common stock (including shares issued upon exercise of warrants, options or convertible securities), the market price of our common stock could fall. Subject to certain lock-up agreements to be entered into by the selling stockholder and by our officers and directors in connection with the offering (as described under "Underwriting"), substantially all of the outstanding shares of our common stock may be sold in the public market.

Anti-takeover provisions in our charter and by-laws could limit our share price and deter a third party from acquiring our company.

Certain provisions of our Certificate of Incorporation and By-laws, as well as applicable Delaware law, could make it difficult for a third party to acquire our company without the consent of the incumbent board. These provisions provide, among other things, that:

- . the directors of our company (other than directors elected by the holders of our outstanding preferred stock) are divided into three classes, with directors of each class serving for a staggered three-year period;
- . directors may be removed only for cause and only upon the affirmative vote of at least 66 2/3% of the voting power of all the then outstanding shares of stock entitled to vote;
- . stockholders may not act by written consent;
- . stockholder nominations and proposals may only be made if specified advance notice requirements are complied with;
- . stockholders are precluded from calling a special meeting of

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stockholders; and

- . the board of directors has the authority to issue shares of preferred stock in one or more series and to fix the powers, preferences and rights of any such series without stockholder approval.

These provisions could:

- . have the effect of delaying, deferring or preventing a change of control that may be in the best interests of the stockholders and that the stockholders may favor;
- . discourage bids for our common stock at a premium over the market price; and
- . impede the ability of the holders of our common stock to change our management.

USE OF PROCEEDS

United Rentals will not receive any proceeds from the sale of common stock in this offering by the selling stockholder.

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PRICE RANGE OF COMMON STOCK

Our common stock trades on the New York Stock Exchange under the symbol "URI." The following table sets forth, for the periods indicated, the high and low sales prices for the common stock, as reported by the New York Stock Exchange.

	High	Low
	-----	-----
1999:		
First quarter.....	\$35.69	\$26.13
Second quarter.....	33.25	25.13
Third quarter.....	31.00	21.50
Fourth quarter.....	21.94	14.31
2000:		
First quarter.....	\$22.31	\$13.44
Second quarter.....	19.94	13.00
Third quarter.....	24.19	17.00
Fourth quarter.....	24.31	11.69
2001:		
First quarter.....	\$19.73	\$12.75

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Second quarter.....	26.40	15.06
Third quarter (through August 14, 2001).	26.00	22.10

On August 14, 2001, the last reported sale price of the common stock as reported on the New York Stock Exchange was \$23.45. As of August 14, 2001, there were approximately 331 holders of record of the common stock. We believe that the number of beneficial owners is substantially greater than the number of record holders, because a large portion of the common stock is held of record in broker "street name."

DIVIDEND POLICY

We intend to retain all earnings for the foreseeable future for use in the operation and expansion of our business and, accordingly, we currently have no plans to pay dividends on our common stock. The payment of any future dividends will be determined by our board of directors in light of conditions then existing, including our earnings, financial condition and capital requirements, restrictions in financing agreements, business conditions and other factors. Under the terms of certain agreements governing our outstanding indebtedness, we are prohibited or restricted from paying dividends on our common stock. In addition, under Delaware law, we are prohibited from paying any dividends unless we have capital surplus or net profits available for this purpose.

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CAPITALIZATION

The following table summarizes our capitalization as of June 30, 2001. You should read this table together with (1) the information set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and (2) the consolidated financial statements of our company and the related notes which are included herein.

	As of June 30, 2001
	----- (dollars in millions, except share data)
Cash and cash equivalents.....	\$ 36
	=====
Debt (including current portion):	
Revolving credit facility.....	\$ 333
Term loan.....	750
Receivables securitization.....	212
10 3/4% senior notes due 2008.....	450
9 1/2% senior subordinated notes due 2008.....	200
8.8% senior subordinated notes due 2008.....	201
9 1/4% senior subordinated notes due 2009.....	300
9% senior subordinated notes due 2009.....	250

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Other debt.....	64

Total debt.....	2,760
Company-obligated mandatorily redeemable convertible preferred securities of a subsidiary trust.....	300
Stockholders' equity:	
Preferred stock--\$.01 par value, 5,000,000 shares authorized:	
Series A perpetual convertible preferred stock--\$300 liquidation preference, 300,000 shares issued and outstanding.....	
Series B perpetual convertible preferred stock--\$150 liquidation preference, 150,000 shares issued and outstanding.....	
Common stock--\$.01 par value, 500,000,000 shares authorized, 73,150,359 shares issued and outstanding(1).....	1
Additional paid in capital.....	1,241
Deferred compensation.....	(59)
Retained earnings.....	373
Accumulated other comprehensive loss.....	(15)

Total stockholders' equity.....	1,541

Total capitalization.....	\$4,601
	=====

(1) Does not include (i) 12,000,000 shares issuable upon conversion of the outstanding shares of Series A Perpetual Convertible Preferred Stock, which provide for a conversion price of \$25 per share, (ii) 5,000,000 shares issuable upon conversion of the outstanding shares of Series B Perpetual Convertible Preferred Stock, which provide for a conversion price of \$30 per share, (iii) 6,875,580 shares issuable upon conversion of the outstanding preferred securities of a subsidiary trust, which provide for a conversion price of \$43.625 per share, (iv) 6,808,581 shares issuable upon the exercise of outstanding warrants, which provide for a weighted average exercise price of \$11.83 per share, (v) 16,546,567 shares issuable upon the exercise of outstanding options, which provide for a weighted average exercise price of \$20.29 per share, and (vi) 232,586 shares issuable upon conversion of outstanding debt of United Rentals, which provide for a weighted average conversion price of \$33.25 per share.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The tables below present selected financial information for our company. You should read this information together with (1) the information set forth under "Capitalization" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and (2) the consolidated financial statements of our company and the related notes which are included herein.

The balance sheet data presented below as of December 31, 2000 and 1999 and the income statement data for the years ended December 31, 2000, 1999 and 1998 are derived from our audited consolidated financial statements which are included herein. The balance sheet data presented below as of December 31, 1998, 1997 and 1996 and the income statement data for the years ended December

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31, 1997 and 1996 are derived from audited consolidated financial statements of our company which are not included or incorporated by reference in this prospectus. The balance sheet data presented below as of June 30, 2001 and the income statement data for the six-month periods ended June 30, 2001 and 2000 are derived from our unaudited consolidated financial statements which are included herein.

Certain of our acquisitions were accounted for as purchases and certain acquisitions were accounted for as poolings-of-interests, including our September 1998 merger with U.S. Rentals, Inc. For further information concerning the accounting for these acquisitions, see (1) note 3 to the audited consolidated financial statements of our company included herein and (2) note 2 to the unaudited consolidated financial statements of our company included herein.

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Selected Consolidated Financial Information

	Year Ended December 31,					2001
	1996	1997	1998	1999	2000	
	-----					-----
	(dollars in millions, except per share)					
Income statement data:						
Total revenues.....	\$ 354	\$ 490	\$1,220	\$2,234	\$2,919	\$1,830
Total cost of operations.....	241	341	797	1,409	1,830	
	-----	-----	-----	-----	-----	-----
Gross profit.....	113	149	423	825	1,089	
Selling, general and administrative expenses.....	55	71	196	353	454	
Merger-related expenses.....			47			
Restructuring charge.....						
Non-rental depreciation and amortization.....	9	13	35	63	87	
Termination cost of deferred compensation agreements.....		20				
	-----	-----	-----	-----	-----	-----
Operating income.....	49	45	145	409	548	
Interest expense.....	11	12	64	140	229	
Preferred dividends of a subsidiary trust.....			8	20	20	
Other (income) expense, net.....		(2)	(5)	7	(2)	
	-----	-----	-----	-----	-----	-----
Income before provision for income taxes and extraordinary items.....	38	35	78	242	301	
Provision for income taxes.....		30	44	99	125	
	-----	-----	-----	-----	-----	-----
Income before extraordinary items.....	38	5	34	143	176	
Extraordinary items, net(1).....		1	21			
	-----	-----	-----	-----	-----	-----
Net income(2).....	\$ 38	\$ 4	\$ 13	\$ 143	\$ 176	\$
	=====	=====	=====	=====	=====	=====
Pro forma provision for income taxes before extraordinary items(3).....	\$ 15	\$ 14	\$ 44			

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Pro forma income before extraordinary items(2).....	23	21	34		
Basic earnings per share before extraordinary items.....	\$1.67	\$0.12	\$ 0.53	\$ 2.00	\$ 2.48
Diluted earnings per share before extraordinary items.....	\$1.67	\$0.11	\$ 0.48	\$ 1.53	\$ 1.89
Basic earnings per share(2).....	\$1.67	\$0.08	\$ 0.20	\$ 2.00	\$ 2.48
Diluted earnings per share(2).....	\$1.67	\$0.08	\$ 0.18	\$ 1.53	\$ 1.89

	As of December 31,					As of
	1996	1997	1998	1999	2000	June 30, 2001
	(dollars in millions)					

Balance sheet data:

Cash and cash equivalents.....	\$ 3	\$ 72	\$ 20	\$ 24	\$ 34	\$ 36
Rental equipment, net.....	235	461	1,143	1,660	1,733	1,851
Goodwill, net(4).....	1	74	922	1,853	2,216	2,200
Total assets.....	381	826	2,635	4,498	5,124	5,315
Total debt.....	214	265	1,315	2,266	2,675	2,760
Company-obligated mandatorily redeemable convertible preferred securities of a subsidiary trust.....			300	300	300	300
Stockholders' equity.....	105	446	726	1,397	1,546	1,541

(1)The charge in 1997 resulted from the prepayment of debt by U.S. Rentals. The charge in 1998 resulted from the early extinguishment of certain debt and primarily reflected prepayment penalties on certain debt of U.S. Rentals. The charge in 2001 resulted from the refinancing of certain debt and primarily reflected the write-off of deferred financing fees.

(2)Our earnings during 1997 were impacted by \$20.3 million (\$0.40 per diluted share) of expenses related to the termination of certain deferred compensation expenses in connection with U.S. Rentals' initial public offering, a \$7.5 million (\$0.15 per diluted share) charge to recognize deferred tax liabilities of U.S. Rentals and an extraordinary item (net of income taxes) of \$1.5 million (\$0.03 per diluted share). Our earnings during 1998 were impacted by merger-related expenses of \$47.2 million (\$33.2 million net of taxes or \$0.45 per diluted share), a \$4.8 million (\$0.07 per diluted share) 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 (\$0.30 per diluted share). Our earnings during 1999 were impacted by \$18.2 million (\$10.8 million net of taxes or \$0.12 per diluted share) of expenses related to a terminated tender offer. Our earnings during 2001 were impacted by a restructuring charge of \$28.9 million (\$19.2 million net of taxes or \$0.20 per diluted share), a \$7.8 million (\$5.2 million net of taxes or \$0.06 per diluted share) charge, recorded in other expense, relating to refinancing costs of a synthetic lease, and an extraordinary item (net of income taxes) of \$11.3 million (\$0.13 per diluted share).

(3) U.S. Rentals was taxed as a Subchapter S Corporation until its initial public offering in February 1997, and another company that we acquired in a pooling-of-interests transaction was taxed as a Subchapter S Corporation until being acquired by us 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 provisions 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.

(4) Goodwill is defined as the excess of cost over the fair value of identifiable net assets of businesses acquired and is amortized on a straight-line basis over forty years.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements of our company and the related notes which are included herein.

General

We primarily derive revenues from the following sources: (i) equipment rental (including additional fees that may be charged for equipment delivery, fuel, repair of rental equipment, and damage waivers), (ii) the sale of used rental equipment, (iii) the sale of new equipment and (iv) the sale of related merchandise and parts and other revenue.

Cost of operations consists primarily of depreciation costs associated with rental equipment, the cost of repairing and maintaining rental equipment, the cost of rental equipment and equipment and other merchandise sold, personnel costs, occupancy costs and supplies.

We record rental equipment expenditures at cost and depreciate equipment using the straight-line method over the estimated useful life (which ranges from 2 to 10 years), after giving effect to an estimated salvage value of 0% to 10% of cost.

Selling, general and administrative expenses primarily include sales commissions, advertising and marketing expenses, management salaries, and clerical and administrative overhead.

Non-rental depreciation and amortization includes (i) depreciation expense associated with equipment that is not offered for rent (such as vehicles, computers and office equipment) and amortization expense associated with leasehold improvements, (ii) the amortization of deferred financing costs and (iii) the amortization of intangible assets. Our intangible assets include non-compete agreements and goodwill, which represents the excess of the purchase price of acquired companies over the estimated fair market value of the net assets acquired.

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Accounting For Acquisitions

We commenced operations in October 1997 and have completed 247 acquisitions, including a merger with U.S. Rentals, Inc., which was completed in September 1998. We accounted for three of these acquisitions (including the U.S. Rentals merger) as "poolings-of-interests," which means that for accounting and financial reporting purposes the acquired company is treated as having been combined with us at all time since the inception of the acquired company. Accordingly, we have restated our financial statements to include the accounts of two of the companies acquired in these pooling-of-interest transactions (but have not restated our financial statements for the third transaction, which was not material and which has been combined with us effective July 1, 1998). For additional information concerning this restatement, see note 3 to our audited consolidated financial statements included herein. We accounted for our other acquisitions as "purchases," which means that the results of operations of the acquired company are included in our financial statements only from the date of acquisition. In view of the fact that our operating results for 2001, 2000, 1999 and 1998 were affected by acquisitions that were accounted for as purchases, we believe that our results for these periods are not directly comparable.

Restructuring Plan

We have adopted a restructuring plan involving the following principal elements: (i) 31 underperforming branches are being closed or consolidated with other locations (comprised of 18

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closed or consolidated as of June 30, 2001 and 13 that will be closed or consolidated by December 31, 2001); (ii) five administrative offices are being closed or consolidated with other locations; (iii) our employee headcount is being reduced by 489; and (iv) certain information technology hardware and software will no longer be used.

The aggregate annual revenues from the 31 branches that are being eliminated amounted to approximately \$82.0 million. We expect that we will retain approximately \$56 million of this revenue by shifting the business of some of the closed branches to other locations. We estimate that we will realize annual cost savings from the branch closures of approximately \$33 million.

We recorded, in the second quarter of 2001, a restructuring charge of approximately \$28.9 million relating to the restructuring plan described above. This charge is comprised of a non-cash charge in the amount of \$10.9 million and cash expenses in the amount of \$18.0 million. We paid approximately \$3.2 million of these cash expenses in the second quarter of 2001. We expect to pay the balance of these cash expenses as follows: approximately \$8.6 million during the balance of 2001 and approximately \$6.2 million in subsequent periods.

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The restructuring charge includes: (1) the cost of vacating facilities, primarily the payment of obligations under leases, offset by estimated sublease opportunities, the write-off of capital improvements made to such facilities and the write-off of related goodwill, (2) workforce reduction costs, primarily severance, and (3) information technology costs. The table below provides certain information concerning the restructuring charge:

Components of Restructuring Charge	Amount of Charge	Activity through June 30, 2001(1)	Balance June 30, 2001(2)
Cost to vacate facilities.....	\$18,291	\$ 9,779	\$ 8,512
Workforce reduction costs.....	5,666	1,296	4,370
Information technology costs.....	4,965	3,042	1,923
Total.....	\$28,922	\$14,117	\$14,805
	=====	=====	=====

 (1) Represents the non-cash component of the charge plus the cash component that was paid through June 30, 2001.

(2) Represents the portion of the cash component of the charge that had not been paid as of June 30, 2001.

Debt Refinancing and Extraordinary Item

We refinanced an aggregate of \$1,695.7 million of indebtedness and other obligations in April 2001, as described under "Liquidity and Capital Resources--Information Concerning Recent Financing Transactions." We recorded the following charges relating to this refinancing in the second quarter of 2001: (i) a pre-tax extraordinary charge of \$18.1 million (\$11.3 million, net of tax) that relates to the refinancing of indebtedness and primarily reflects the write-off of deferred financing fees and (ii) a pre-tax charge of \$7.8 million (\$5.2 million, net of tax) that is recorded in other (income) expense, net, and relates to the refinancing of a synthetic lease.

Results of Operations

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Six Months Ended June 30, 2001 and 2000

Revenues. Total revenues for the six months ended June 30, 2001 were \$1,387.1 million, representing an increase of 6.0% over total revenues of \$1,308.9 million for the six months ended June 30, 2000. Our revenues during these periods were attributable to the following sources:

- . Revenues from Equipment Rentals. These revenues were \$1,043.8 million in the first six months of 2001, representing an increase of 14.5% from \$911.6 million in the first six months of 2000. These revenues accounted for 75.3% of our total revenues in the first six months of 2001 compared with 69.6% of our total revenues in first six months of 2000. The 14.5% increase in these revenues in the first six months of 2001 reflected (i) increased revenues at locations open more than one year (which accounted for approximately 8.0 percentage points, 7.9 percentage points of which related to increases in the volume of transactions and utilization rates, offset by 0.1 percentage points from price decreases) and (ii) new rental locations acquired through acquisitions and the opening of start-up locations, partially offset by locations sold or closed (which accounted for approximately 6.5 percentage points).

- . Revenues from the Sales of Rental Equipment. These revenues were \$72.2 million in the first six months of 2001, representing a decrease of 53.4% from \$155.2 million in the first six months of 2000. These revenues accounted for 5.2% of our total revenues in the first six months of 2001 compared with 11.9% of our total revenues in the first six months of 2000. The reduction in these revenues in 2001 reflects the fact that, as the economy softened, we reduced our budget for new equipment purchases in 2001 and slowed the rate at which we sell our used rental equipment. See "--Liquidity and Capital Resources--Certain Measures to Reduce Cash Requirements."

- . Revenues from the Sales of Equipment and Merchandise and Other Revenues. These revenues were \$271.1 million in the first six months of 2001, representing an increase of 12.0% from \$242.1 million in the first six months of 2000. These revenues accounted for 19.6% of our total revenues in the first six months of 2001 compared with 18.5% of our total revenues in the first six months of 2000. The 12.0% increase in sales of equipment and merchandise and other revenues was attributable to the increase in the volume of transactions.

Gross Profit. Gross profit increased to \$488.6 million in the six months ended June 30, 2001, from \$477.8 million in the six months ended June 30, 2000. This increase primarily reflected the increase in revenues described above. Our gross profit margin by source of revenues in the six months ended June 30, 2001 and 2000 was: (i) equipment rental (36.9% in the six months ended June 30, 2001 and 39.0% in the six months ended June 30, 2000), (ii) sales of rental equipment (41.3% in the six months ended June 30, 2001 and 41.2% in the six

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months ended June 30, 2000) and (iii) sales of equipment and merchandise and other revenues (27.1% in the six months ended June 30, 2001 and 23.9% in the six months ended June 30, 2000).

The decrease in the gross profit margin from rental revenues in the six months ended June 30, 2001, principally reflected the following factors. First, we had more traffic control equipment in 2001 than in 2000. This lowered our overall gross profit margin because (i) this equipment category generally produces losses during the first quarter due to seasonal factors and (ii) this equipment category generally produces lower gross profit margins than our other categories. Second, our cost of equipment rental increased in 2001 because more of our rental equipment was held by us under operating leases rather than being owned. The increase in the gross profit margin from sales of equipment and merchandise and other revenue in the six months ended June 30, 2001, primarily reflected the following: (i) lower costs resulting from our ongoing efforts to consolidate our suppliers and further capitalize on our purchasing power and (ii) a shift in mix which resulted in more of our sales being attributable to higher margin areas such as providing services and selling parts.

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Selling, General and Administrative Expenses. Selling, general and administrative expenses ("SG&A") were \$221.7 million, or 16.0% of total revenues, during the six months ended June 30, 2001 and \$211.0 million, or 16.1% of total revenues, during the six months ended June 30, 2000. Although we have been implementing a number of measures to reduce SG&A, including reducing the number of administrative personnel, reducing discretionary expenditures and consolidating certain credit and collection facilities, SG&A as a percentage of total revenues only decreased very slightly in 2001. This principally reflects the fact that our revenues from the sales of rental equipment were down significantly in 2001 for the reasons described above. SG&A as a percentage of revenues, excluding revenues from the sale of rental equipment, decreased to 16.9% in the six months ended June 30, 2001 from 18.3% in the six months ended June 30, 2000.

Restructuring Charge. We recorded a restructuring charge of \$28.9 million in the six months ended June 30, 2001. See "--Restructuring Plan" for additional information.

Non-rental Depreciation and Amortization. Non-rental depreciation and amortization was \$53.2 million, or 3.8% of total revenues, in the six months ended June 30, 2001 and \$40.7 million, or 3.1% of total revenues, in the six months ended June 30, 2000. The increase in the dollar amount of non-rental depreciation and amortization in the first six months of 2001 primarily reflected (i) the amortization of goodwill attributable to acquisitions completed subsequent to the second quarter of 2000 and (ii) additional non-rental vehicles which have shorter useful lives.

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Interest Expense. Interest expense increased to \$114.6 million in the six months ended June 30, 2001 from \$106.2 million in the six months ended June 30, 2000. This increase primarily reflected an increase in the Company's indebtedness, principally to fund acquisitions.

Preferred Dividends of a Subsidiary Trust. During the six months ended June 30, 2001 and 2000, preferred dividends of a subsidiary trust were \$9.8 million.

Other (Income) Expense. Other expense was \$6.9 million in the six months ended June 30, 2001 compared with other income of \$0.3 million in the six months ended June 30, 2000. The increase in other expense in the first six months of 2001 was primarily attributable to the \$7.8 million charge we incurred relating to the refinancing costs of a synthetic lease as described under "--Debt Refinancing and Extraordinary Item."

Income Taxes. Income taxes were \$25.1 million, or an effective rate of 47.0%, in the six months ended June 30, 2001 compared to \$45.8 million, or an effective rate of 41.5%, in the six months ended June 30, 2000. The increase in the effective rate in the first six months of 2001 was primarily attributable to the non-deductibility for income tax purposes of certain costs in the restructuring charge.

Extraordinary Item. We recorded an extraordinary charge of \$18.1 million (\$11.3 million, net of tax) in the six months ended June 30, 2001. See "--Debt Refinancing and Extraordinary Item" for additional information.

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Years Ended December 31, 2000 and 1999

Revenues. Total revenues for 2000 were \$2,918.9 million, representing an increase of 30.7% over total revenues of \$2,233.6 million in 1999. Our revenues in 2000 and 1999 were attributable to: (i) equipment rental (\$2,056.7 million, or 70.5% of revenues, in 2000 compared to \$1,581.0 million, or 70.8% of revenues, in 1999), (ii) sales of rental equipment (\$347.7 million, or 11.9% of revenues, in 2000 compared to \$235.7 million, or 10.6% of revenues, in 1999) and (iii) sales of equipment and merchandise and other revenues (\$514.5 million, or 17.6% of revenues, in 2000 compared to \$416.9 million, or 18.7% of revenues, in 1999).

The 30.7% increase in total revenues in 2000 reflected (i) increased revenues at locations open more than one year (which accounted for approximately 12.9 percentage points, 10.9 percentage points of which related to increases in the volume of transactions and utilization rates and 2.0

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percentage points of which related to price increases) and (ii) the net effect of new rental locations acquired through acquisitions and the opening of start-up locations partially offset by locations sold or closed (which accounted for approximately 17.8 percentage points). The increase in revenues at locations open more than one year primarily reflected (a) an increase in the volume of rental transactions, (b) an increase in the sale of related merchandise and parts which was driven by the increase in equipment rental and sales transactions and (c) an increase in the sale of used equipment.

Gross Profit. Gross profit increased to \$1,088.6 million in 2000 from \$824.9 million in 1999. This increase in gross profit was primarily attributable to the increase in revenues described above. Our gross profit margin by source of revenue in 2000 and 1999 was: (i) equipment rental (39.9% in 2000 and 39.4% in 1999), (ii) sales of rental equipment (40.1% in 2000 and 42.0% in 1999) and (iii) sales of equipment and merchandise and other revenues (24.9% in 2000 and 24.6% in 1999). The increase in the gross profit margin from rental revenues in 2000 was primarily attributable to greater equipment utilization rates and to economies of scale. The decrease in the gross profit margin from the sales of rental equipment in 2000 reflected the sale of more late-model used equipment which generally generates lower gross profit margins than older equipment.

Selling, General and Administrative Expenses. SG&A was \$454.3 million, or 15.6% of total revenues, during 2000 and \$352.6 million, or 15.8% of total revenues, during 1999. SG&A in 1999 included an \$8.3 million charge primarily due to professional fees incurred in connection with a terminated tender offer. Excluding this charge, SG&A as a percentage of revenues was 15.4% in 1999.

Non-rental Depreciation and Amortization. Non-rental depreciation and amortization was \$86.3 million, or 3.0% of total revenues, in 2000 and \$62.9 million, or 2.8% of total revenues, in 1999.

Interest Expense. Interest expense increased to \$228.8 million in 2000 from \$139.8 million in 1999. This increase primarily reflected (i) an increase in our indebtedness, principally to fund acquisitions, and (ii) an increase in the interest rates applicable to our variable rate debt.

Preferred Dividends of a Subsidiary Trust. During 2000 and 1999, preferred dividends of a subsidiary trust were \$19.5 million.

Other (Income) Expense. Other income was \$1.8 million in 2000 compared to \$8.3 million of other expense in 1999. The other expense in 1999 was attributable to a \$9.9 million charge that principally related to fees that we paid for a \$2.0 billion financing commitment that was subsequently cancelled upon termination of a tender offer made by us in 1999.

Income Taxes. Income taxes increased to \$125.1 million, or an effective rate of 41.5%, in 2000 from \$99.1 million, or an effective rate of 41.0%, in 1999.

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Years Ended December 31, 1999 and 1998

Revenues. Total revenues for 1999 were \$2,233.6 million, representing an increase of 83.0% over total revenues in 1998 of \$1,220.3 million. Our revenues in 1999 and 1998 were attributable to: (i) equipment rental (\$1,581.0 million,

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or 70.8% of revenues, in 1999 compared to \$895.5 million, or 73.4% of revenues, in 1998), (ii) sales of rental equipment (\$235.7 million, or 10.6% of revenues, in 1999 compared to \$119.6 million, or 9.8% of revenues, in 1998) and (iii) sales of equipment and merchandise and other revenues (\$416.9 million, or 18.6% of revenues, in 1999 compared to \$205.2 million, or 16.8% of revenues, in 1998).

The 83.0% increase in total revenues in 1999 reflected (i) increased revenues at locations open more than one year (which accounted for approximately 21.2 percentage points) and (ii) new rental locations acquired through acquisitions and the opening of start-up locations (which accounted for approximately 61.8 percentage points). The increase in revenues at locations open more than one year primarily reflected (a) an increase in the volume of rental transactions, (b) expansion of the product lines that we offer for sale, (c) an increase in the sale of related merchandise and parts which was driven by the increase in equipment rental and sales transactions and (d) an increase in the sale of used equipment.

Gross Profit. Gross profit increased to \$824.9 million in 1999 from \$423.4 million in 1998. This increase in gross profit was primarily attributable to the increase in revenues described above. Our gross profit margin by source of revenue in 1999 and 1998 was: (i) equipment rental (39.4% in 1999 and 36.3% in 1998), (ii) sales of rental equipment (42.0% in 1999 and 44.7% in 1998) and (iii) sales of equipment and merchandise and other revenues (24.6% in 1999 and 22.0% in 1998). The increase in the gross profit margin from rental revenues in 1999 was primarily attributable to greater equipment utilization rates and to economies of scale. The decrease in the gross profit margin from the sales of rental equipment in 1999 primarily reflected a shift in mix towards the sale of more late-model used equipment which generally generates lower gross profit margins than older equipment. The increase in the gross profit margin from sales of equipment and merchandise and other revenue in 1999 primarily reflected the benefits of greater purchasing power.

Selling, General and Administrative Expenses. SG&A was \$352.6 million, or 15.8% of total revenues, during 1999 and \$195.6 million, or 16.0% of total revenues, during 1998. SG&A in 1999 includes an \$8.3 million charge primarily due to professional fees incurred in connection with a terminated tender offer. Excluding this charge, SG&A as a percentage of revenues decreased to 15.4% in 1999, primarily due to certain economies of scale relating to the increase in revenues described above.

Merger-related Expenses. We incurred merger-related expenses in 1998 of \$47.2 million (\$33.2 million after-tax) in connection with three acquisitions completed by us in 1998 that were accounted for as poolings-of-interests. These expenses consisted of: (i) \$18.5 million for investment banking, legal and 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 the computer systems acquired through our merger with U.S. Rentals and one of the other acquisitions accounted for as a pooling-of-interests and (v) \$3.9 million in other expenses.

Non-rental Depreciation and Amortization. Non-rental depreciation and amortization was \$62.9 million, or 2.8% of total revenues, in 1999 and \$35.2 million, or 2.9% of total revenues, in 1998.

Interest Expense. Interest expense increased to \$139.8 million in 1999 from \$64.2 million in 1998. This increase primarily reflected the fact that our indebtedness significantly increased in 1999, primarily to fund acquisitions.

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Preferred Dividends of a Subsidiary Trust. Preferred dividends of a subsidiary trust were \$19.5 million in 1999 compared with \$7.9 million in 1998.

Other (Income) Expense. Other expense was \$8.3 million in 1999 compared with other income of \$4.9 million in 1998. The increase in other expense in 1999 primarily reflected a \$9.9 million charge that principally related to fees paid by us for a \$2.0 billion financing commitment that was subsequently cancelled upon termination of a tender offer.

Income Taxes. Income taxes increased to \$99.1 million, or an effective rate of 41.0%, in 1999 from \$43.5 million, or an effective rate of 55.6%, in 1998. During 1998, our high effective tax rate reflected (i) the non-deductibility of \$7.4 million for income tax purposes of certain merger-related expenses and (ii) a \$4.8 million charge to recognize deferred tax liabilities of an acquired business, which was a Subchapter S Corporation prior to being acquired by us.

Extraordinary Item. We recorded an extraordinary charge of \$35.6 million (\$21.3 million net of taxes) in 1998. This charge was incurred in connection with the early extinguishment of certain debt and primarily reflected prepayment penalties on certain debt of U.S. Rentals.

Liquidity and Capital Resources

Recent Financing Transactions

In April 2001, we refinanced \$1,695.7 million of our indebtedness and other obligations. In order to effect this refinancing, we:

- . issued \$450.0 million of 10 3/4% Senior Notes Due 2008;
- . obtained a new senior secured credit facility comprised of a \$750.0 million term loan and a \$750.0 million revolving credit facility;
- . made an initial draw under the new revolving credit facility in the amount of \$525.0 million; and
- . used the proceeds from the notes, the new term loan and the initial draw under the new revolving credit facility to (i) permanently repay the outstanding balance under our old revolving credit facility (\$476.0 million); (ii) repay outstanding term loans (\$1,188.5 million) and (iii) repay an outstanding synthetic lease (\$31.2 million).

In June 2001, we obtained an additional \$112.0 million through the

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securitization of additional accounts receivable.

Certain Information Concerning Our Credit Facility

Our revolving credit facility enables URI to borrow up to \$750.0 million on a revolving basis and enables one of our Canadian subsidiaries to borrow up to \$40.0 million (provided that the aggregate borrowings of URI and the Canadian subsidiary may not exceed \$750.0 million). Up to \$100.0 million of the revolving credit facility is available in the form of letters of credit. The revolving credit facility will mature and terminate on October 20, 2006.

Borrowings under the revolving credit facility will, until October 20, 2001, accrue interest, at our option, at either (A) the ABR Rate (which is equal to the greater of (i) the Federal Funds Rate plus 0.5% or (ii) the Chase Manhattan Bank's prime rate) plus a margin of 1.00% or (B) an adjusted LIBOR rate plus a margin of 2.0%. From and after October 20, 2001, the above interest rate margins will be adjusted quarterly based on our funded debt to cash flow ratio, up to maximum margins of 1.75% and 2.75%, for revolving loans based on the ABR rate and the adjusted LIBOR rate, respectively, and down to minimum margins of 0.75% and 1.75%, for revolving loans based on the ABR rate and the adjusted LIBOR rate, respectively. If at any time an event of default exists, the interest rate applicable to each loan will increase by 2% per annum.

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We are also required to pay the lenders a commitment fee equal to 0.5% per annum in respect of undrawn commitments under the revolving credit facility.

Sources and Uses of Cash

During the first six months of 2001, we (i) generated cash from operations of approximately \$298.5 million, (ii) generated cash from the sale of rental equipment of approximately \$72.2 million and (iii) obtained net proceeds from financing activities of approximately \$9.2 million. We used cash during this period principally to (i) pay consideration for acquisitions and settle certain outstanding liabilities due to former owners of businesses that we acquired (approximately \$37.8 million), (ii) purchase rental equipment (approximately \$303.3 million), (iii) purchase other property and equipment (approximately \$31.4 million) and (iv) purchase and retire shares of our outstanding common stock (approximately \$24.8 million).

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During 2000, we (i) generated cash from operations of approximately \$512.7 million, (ii) generated cash from the sale of rental equipment of approximately \$347.7 million and (iii) obtained net proceeds from financing activities of approximately \$468.1 million. We used cash during this period principally to (i) pay consideration for acquisitions (approximately \$347.3 million), (ii) purchase rental equipment (approximately \$808.2 million), (iii) purchase other property and equipment (approximately \$153.8 million) and (iv) purchase and retire shares of our outstanding common stock (approximately \$31.0 million).

Certain Balance Sheet Changes

Changes in the First Six Months of 2001. The increase in accounts receivable at June 30, 2001 compared to December 31, 2000 was attributable to the increase in revenues due to the seasonally stronger second quarter. The decrease in inventory at June 30, 2001 compared to December 31, 2000 primarily reflected increased sales during the second quarter of 2001. The increase in prepaid expenses and other assets at June 30, 2001 compared to December 31, 2000 was primarily attributable to payment of certain prepaid expenses during the first six months of 2001. The increase in accounts payable, deferred taxes and accrued expenses and other liabilities at June 30, 2001 compared to December 31, 2000 was primarily attributable to the increase in revenues in the second quarter of 2001.

The increase in rental equipment at June 30, 2001 compared to December 31, 2000 primarily reflected our equipment purchases during the first six months of 2001. The increase in debt at June 30, 2001 compared to December 31, 2000 primarily reflected borrowings for acquisition related payments and equipment purchases during the first six months of 2001. The increase in additional paid-in capital at June 30, 2001 compared to December 31, 2000 was primarily attributable to the accounting for restricted shares that were issued during the second quarter of 2001.

Changes in 2000. Our asset and liability accounts were all higher at December 31, 2000 than at December 31, 1999, other than accrued expenses and other liabilities which was lower. The general increase in our asset and liability accounts primarily reflected the acquisitions and the equipment purchases made that we made in 2000. The decrease in accrued expenses and other liabilities primarily reflected the refund of certain income tax payments.

The decrease in additional paid-in capital at December 31, 2000 compared with December 31, 1999, primarily reflected the purchase and retirement of shares of our outstanding common stock offset in part by the issuance of common stock in connection with an acquisition.

Cash Requirements Related to Operations

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Our principal existing sources of cash are borrowings available under our revolving credit facility (\$289.7 million available as of August 7, 2001) and cash generated from operations. Our cash generated from operations was approximately \$298.5 million and \$262.8 million in the first six months of 2001 and the first six months of 2000, respectively. The increase in 2001 primarily reflected the changes in our operating assets and liabilities discussed above under "--Certain Balance Sheet Changes." We believe that our existing sources of cash will be sufficient to support our existing operations over the next 12 months.

We expect that our principal needs for cash relating to our existing operations over the next 12 months will be to fund (i) operating activities and working capital, (ii) the purchase of rental equipment and inventory items offered for sale, (iii) debt service and (iv) costs relating to the restructuring charge. We plan to fund such cash requirements relating to our existing operations from our existing sources of cash described above. In addition, we plan to seek additional financing through the securitization of certain of our accounts receivable and equipment.

We estimate that equipment expenditures for the year 2001 will be approximately \$400 million for our existing operations. These expenditures are comprised of approximately (i) \$150 million of expenditures in order to replace rental equipment sold, (ii) \$200 million of discretionary expenditures to increase the size of our rental fleet and (iii) \$50 million of expenditures for the purchase of non-rental equipment. We expect that we will fund such expenditures from proceeds from the sale of used equipment, cash generated from operations and, if required, borrowings available under our revolving credit facility.

While emphasizing internal growth, we may also continue to expand through a disciplined acquisition program. We expect to pay for future acquisitions using cash, capital stock, notes and/or assumption of indebtedness. To the extent that our existing sources of cash described above are not sufficient to fund such future acquisitions, we will require additional financing and, consequently, our indebtedness may increase as we implement our growth strategy. There can be no assurance, however, that any additional financing will be available or, if available, will be on terms that are satisfactory to us.

The recent refinancing of \$1,695.7 million of our indebtedness (described under "--Recent Financing Transactions") extended the maturities of a significant amount of our indebtedness. Based on the scheduled maturities of our current indebtedness, we are required to make principal payments of approximately \$15.7 million over the next 12 months. We may also, at our option, make additional principal payments.

Certain Measures to Reduce Cash Requirements

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As the economy softened, we adopted a number of measures to further control costs and increase free cash flow. These include the restructuring plan discussed above under "--Restructuring Plan" and the measures described below.

Reduce Equipment Purchases. We will purchase less new equipment in 2001 than in 2000 (\$400 million budgeted for 2001 compared to approximately \$962 million expended in 2000) and will reduce the rate at which we sell used equipment. The amount of the reduction will depend on future developments, including the economic outlook, conditions in the used equipment market and our equipment utilization rate. Based on current conditions, we estimate that our revenues from the sale of used equipment will be 50-75% lower in 2001 than in 2000.

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We estimate that the weighted average age of our rental fleet, which currently is approximately 29 months, will increase to approximately 32 months as a result of the planned reduction in the rate at which we purchase new equipment and sell used equipment. We believe that, because of the young age of our fleet, our business will not be adversely affected by this increase in average age.

Continue to Consolidate Suppliers. We reduced the number of our primary equipment suppliers from 111 to 28 in 2000. This allowed us to lower our purchase costs by approximately \$150 million in 2000 and should enable us to save additional amounts in 2001. We are currently in the process of similarly consolidating our merchandise suppliers.

Other Cost-Cutting Measures. We are seeking to reduce costs in a number of other ways, including reducing administrative expenses, consolidating credit and collection centers, and streamlining advertising.

Relationship Between Holdings and URI

United Rentals, Inc. ("Holdings") is principally a holding company and primarily conducts its operations through its wholly owned subsidiary United Rentals (North America), Inc. ("URI") and subsidiaries of URI. 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 URI. The expenses relating to URI's payments to Holdings are reflected on URI's

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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 to, among other things, enable Holdings to pay dividends on certain preferred securities (the "Trust Preferred Securities") that were issued by a subsidiary trust of Holdings in August 1998.

The Trust Preferred Securities are the obligation of a subsidiary trust of Holdings and are not the obligation of URI. As a result, the dividends payable on these securities are reflected as an expense on the consolidated financial statements of Holdings, but are not reflected as an expense on the consolidated financial statements of URI. This is the principal reason why the net income reported on the consolidated financial statements of URI is higher than the net income reported on the consolidated financial statements of Holdings.

Fluctuations in Operating Results

We expect that our revenues and operating results may fluctuate from quarter to quarter or over the longer term. Certain of the general factors that may cause such fluctuations are discussed under "Risk Factors--Our operating results may fluctuate which could affect the trading value of our common stock."

We are continually involved in the investigation and evaluation of potential acquisitions. In accordance with accounting principles generally accepted in the United States, we capitalize certain direct out-of-pocket expenditures (such as legal and accounting fees) relating to potential or pending acquisitions. Indirect acquisition costs, such as executive salaries, general corporate overhead, public affairs and other corporate services, are expensed as incurred. Our policy is to charge against earnings any capitalized expenditures relating to any potential or pending acquisition that we determine will not be consummated. There can be no assurance that in future periods we will not be required to incur a charge against earnings in accordance with such policy, which charge, depending upon the magnitude thereof, could adversely affect our results of operations.

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We will be required to incur significant start-up expenses in connection with establishing each start-up location. Such expenses may include, among others, pre-opening expenses related to setting up the facility, and expenses in connection with training employees, installing information systems and marketing. We expect that, in general, start-up locations will initially operate at a loss or at less than normalized profit levels. Consequently, the opening of a start-up location may negatively impact our margins until the location achieves normalized profitability.

There may be a lag between the time that we purchase new equipment and begin to incur the related depreciation and interest expenses and the time that the equipment begins to generate revenues at normalized rates. As a result, the purchase of new equipment, particularly equipment purchased in connection with expanding and diversifying our rental equipment, may periodically reduce margins.

Seasonality

Our business is seasonal with demand for our rental equipment tending to be lower in the winter months. The seasonality of our business has been heightened

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by our acquisition of businesses that specialize in renting traffic control equipment. These businesses tend to generate most of their revenues and profits in the second and third quarters of the year, slow down during the fourth quarter and operate at a loss during the first quarter.

Inflation

Although we cannot accurately anticipate the effect of inflation on our operations, we believe that inflation has not had, and is not likely in the foreseeable future to have, a material impact on our results of operations.

Recently Issued Accounting Standards

In June 1998, the FASB issued, and subsequently amended, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which became effective for us on January 1, 2001. Under SFAS No. 133, all derivatives are required to be recorded as assets or liabilities and measured at fair value. Gains or losses resulting from changes in the values of derivatives are recognized immediately or deferred, depending on the use of the derivative and whether or not it qualifies as a hedge.

We occasionally use derivative financial instruments to manage our risk associated with fluctuations in interest rates on our debt. We currently have interest rate swap agreements that convert \$200.0 million of our variable rate term loan to a fixed rate instrument through 2003. These swap agreements are designated as cash flow hedges and changes in the fair value of the hedges are recorded in other comprehensive income and reclassified into earnings in the same periods during which the hedged transaction affects earnings. There is no ineffectiveness related to these hedges.

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 did not have a material effect on our consolidated financial position or results of operations.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations." This standard addresses financial accounting and reporting for business combinations and supersedes APB Opinion No. 16, "Business Combinations" and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." All business combinations in the scope of this Statement are to be accounted for using one method, the purchase method. This standard is effective for all

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business combinations initiated after June 30, 2001.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." This standard addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, "Intangible Assets." This standard is effective for fiscal years beginning after December 15, 2001. However, this standard is immediately effective in cases where goodwill and intangible assets are acquired after June 30, 2001. Under this standard, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests. We are currently evaluating the impact that SFAS No. 142 will have on our financial statements and will perform a fair value analysis of goodwill in connection with the adoption of this standard on January 1, 2002.

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BUSINESS

The Company

United Rentals is the largest equipment rental company in North America with more than 740 locations in 47 states, seven Canadian provinces and Mexico. We offer for rent over 600 different types of equipment to customers that include construction and industrial companies, manufacturers, utilities, municipalities, homeowners and others. In 2000, we served more than 1.2 million customers, completed over 8.4 million rental transactions and generated revenues and net income of \$2.9 billion and \$176.4 million, respectively.

We have the largest fleet of rental equipment in the world, with over 500,000 units having an original purchase price of approximately \$3.6 billion. Our fleet includes:

- . General construction and industrial equipment, such as backhoes, skid-steer loaders, forklifts, earth moving equipment, material handling equipment, compressors, pumps and generators;
- . Aerial work platforms, such as scissor lifts and boom lifts;
- . General tools and light equipment, such as power washers, water pumps, heaters and hand tools;
- . Traffic control equipment, such as barricades, cones, warning lights, message boards and pavement marking systems;
- . Trench safety equipment for below ground work, such as trench shields, aluminum hydraulic shoring systems, slide rails, crossing plates, construction lasers and line testing equipment; and

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- . Special event equipment, such as large tents, light towers and power units used for sporting, corporate and other events.

In addition to renting equipment, we sell used rental equipment, act as a dealer for new equipment and sell related merchandise, parts and service.

We estimate that the U.S. equipment rental industry has grown from approximately \$6.5 billion in annual rental revenues in 1990 to over \$25 billion in 2000, representing a compound annual growth rate of approximately 14.5%. We believe that the principal driver of growth in the equipment rental industry, in addition to general economic expansion, has been the increasing recognition by equipment users of the many advantages that equipment rental may offer compared with ownership. They recognize that by renting they can:

- . avoid the large capital investment required for equipment purchases;
- . access a broad selection of equipment and select the equipment best suited for each particular job;
- . reduce storage and maintenance costs; and
- . access the latest technology without investing in new equipment.

While the construction industry has to date been the principal user of rental equipment, industrial companies, utilities and others are increasingly using rental equipment for plant maintenance, plant turnarounds and other functions requiring the periodic use of equipment. The market for rental equipment is also benefiting from increased government funding for infrastructure projects, such as funding under the U.S. Transportation Equity Act for the 21st Century ("TEA-21") and the Aviation Investment and Reform Act for the 21st Century ("AIR-21"). TEA-21 earmarks \$175 billion for highway

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construction and \$42 billion for transit spending over the 1998-2003 fiscal period, a 40% increase over the prior six-year period. AIR-21 provides for \$40 billion in construction spending over three years to support the FAA's airport improvement programs.

Competitive Advantages

We believe that we benefit from the following competitive advantages:

Large and Diverse Rental Fleet. Our rental fleet is the largest and most comprehensive in the industry, which allows us to:

- . attract customers by providing "one-stop" shopping;
- . serve a diverse customer base and reduce our dependence on any particular customer or group of customers; and
- . serve customers that require substantial quantities or wide varieties of equipment.

Significant Purchasing Power. We purchase large amounts of equipment, merchandise and other items, which enables us to negotiate favorable pricing, warranty and other terms with our vendors. Our purchasing power is further

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increased by our ongoing efforts to consolidate our vendor base. For example, we reduced the number of our primary equipment suppliers from 111 to 28 in 2000. This reduction allowed us to lower our equipment purchase costs by approximately \$150 million in 2000 and should enable us to save additional amounts in 2001. We expect to realize additional savings by consolidating our merchandise suppliers and negotiating more favorable warranty terms with key vendors.

Operating Efficiencies. We generally group our branches into clusters of 10 to 30 locations that are in the same geographic area. Our information technology systems allow each branch to access all available equipment within a cluster. We believe that our cluster strategy produces significant operating efficiencies and increases equipment utilization by enabling us to: (1) market equipment through all branches within a cluster, (2) cross-market equipment specialties of different branches within each cluster and (3) reduce costs by consolidating functions that are common to our more than 740 branches, such as payroll, accounts payable and credit and collection, into 24 credit offices and three service centers. In the second quarter of 2001, approximately 10.7% of our rental revenue was attributable to equipment sharing among branches.

Information Technology Systems. Our information technology systems facilitate our ability to make rapid and informed decisions, respond quickly to changing market conditions, and share equipment among branches. These systems allow: (1) management to obtain a wide range of operating and financial data, (2) branch personnel to access and manage branch level data, such as customer requirements, equipment availability and maintenance histories, and (3) customers to access their accounts online. These systems promote equipment sharing among branches by enabling branch personnel to locate needed equipment within a geographic region, determine its closest location and arrange for its delivery to a customer's work site. We have an in-house team of approximately 100 information technology specialists that supports our systems and extends them to new locations.

Geographic and Customer Diversity. We have more than 740 branches in 47 states, seven Canadian provinces and Mexico and served more than 1.2 million customers in 2000. Our customers are diverse, ranging from Fortune 500 companies to small companies and homeowners, and in 2000 our top ten customers accounted for approximately 2% of our revenues. We believe that our geographic and customer diversity provide us with many advantages including: (1) enabling us to better serve National Account customers with multiple locations, (2) helping us achieve favorable

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resale prices by allowing us to access used equipment resale markets across the country, (3) reducing our dependence on any particular customer and (4) reducing the impact that fluctuations in regional economic conditions have on our overall financial performance.

National Account Program. Our National Account sales force is dedicated to establishing and expanding relationships with larger companies, particularly those with a national or multi-regional presence. We offer our National Account customers the benefits of a consistent level of service across North America and a single point of contact for all their equipment needs. Our National Account team includes 39 professionals serving over 1,500 National Account

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customers, including more than 130 new accounts added in the second quarter of 2001. We estimate our revenues from National Account customers will increase to approximately \$400.0 million in 2001 from \$245.0 million in 2000.

Risk Management and Safety Programs. We place great emphasis on risk reduction and safety and believe that we have one of the most comprehensive risk management and safety programs in the industry. Our risk management department is staffed by 41 experienced professionals and is responsible for implementing our safety programs and procedures, developing our employee and customer training programs and managing any claims against us.

Experienced Senior Management. Our senior management team is comprised of executives with proven track records. Our management team includes Bradley S. Jacobs, John N. Milne and Michael J. Nolan, who together with others founded our company in September 1997, and Wayland R. Hicks who joined them shortly thereafter. Prior to the founding of our company, Mr. Jacobs served as the Chairman and Chief Executive Officer of United Waste Systems, Inc., which he founded in 1989, and Messrs. Milne and Nolan served as members of the United Waste senior management team for periods of seven and six years, respectively. United Waste was sold in August 1997 and, at the time, was the sixth largest provider of integrated, non-hazardous solid waste management services in the United States. Mr. Hicks, prior to joining our company, held senior executive positions at Xerox Corporation, where he worked for 28 years, including Executive Vice President, Corporate Operations and Executive Vice President, Corporate Marketing and Customer Support Operations. Mr. Hicks also served as Vice Chairman and Chief Executive Officer of Nextel Communications Corp. (1994-1995).

Strong and Motivated Branch Management. Each of our branches has a full-time branch manager who is supervised by one of our 63 district managers and nine regional vice presidents. We believe that our managers are among the most knowledgeable and experienced in the industry, and we empower them--within budgetary guidelines--to make day-to-day decisions concerning staffing, pricing, equipment purchasing and other branch matters. Management closely tracks branch, district and regional performance with extensive systems and controls, including performance benchmarks and detailed monthly operating reviews. We promote equipment sharing among branches by linking the compensation of branch managers and other personnel to their branch's financial performance and return on assets.

Flexible Business Strategy. We generate significant cash from operations that is available for growth investment or debt reduction. In response to the slowing economy at the beginning of this year, we decreased the rate at which we purchase new equipment, open new locations and make acquisitions, thereby increasing cash available for debt reduction. We expect to accelerate our growth activities as economic conditions warrant.

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Strategy

We have established the following key business strategies:

Enhance Industry Leadership Position. We intend to use our extensive fleet, broad geographic coverage, advanced information technology systems and depth of experience of our senior and branch management to generate further growth and increase our market share by:

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- . actively managing the composition and size of our fleet to meet customer needs and respond to local demand;
- . promoting equipment sharing and cross-marketing of equipment specialties among branches in geographic regions;
- . focusing on providing outstanding customer service and support;
- . marketing our services to existing and potential National Account customers that can benefit from our ability to provide a broad selection of equipment and a consistently high level of service throughout North America;
- . marketing our extensive fleet of specialized lines of equipment, including (1) aerial work platforms for use in large projects requiring significant amounts of equipment for extended periods of time, (2) traffic control equipment for use in infrastructure projects and (3) trench safety equipment required for use in below ground work in order to comply with government worker safety standards; and
- . training our sales force and branch personnel in value-added sales techniques to achieve customer satisfaction and maximize the value of each transaction.

Maintain Disciplined Approach to Growth Through New Branches and Acquisitions. We intend to continue to selectively open new branches and make acquisitions that will expand our geographic reach, enhance our operating efficiency and increase our market share. In seeking acquisition candidates, we generally focus on those that will have the potential to be immediately accretive to earnings.

Rapidly Adapt to Changing Economic Conditions. We have made significant investments in new equipment over the past several years and, as a result, have one of the most modern rental fleets in the industry. The young age of our fleet gives us the flexibility to respond to an economic downturn by reducing the rate at which we purchase new equipment and sell used equipment. We anticipate significantly increasing our free cash flow from operations in 2001 by reducing our equipment expenditures to approximately \$400 million, compared to \$962 million in 2000.

Products and Services

We offer for rent a wide variety of equipment to customers that include construction and industrial companies, manufacturers, utilities, municipalities, homeowners and others. We also sell used equipment, act as a dealer for many types of new equipment, and sell related merchandise, parts and service. In addition, we have a subsidiary that develops and markets software for use by equipment rental companies in managing and operating multiple branch locations.

For financial information concerning our foreign and domestic operations, see note 14 of the notes to our audited consolidated financial statements included herein.

Equipment Rental

We offer for rent over 600 different types of equipment on a daily, weekly or monthly basis. The types of equipment that we offer include general construction and industrial equipment; aerial work

platforms; traffic control equipment; trench safety equipment; equipment for sporting, corporate and other special events; and general tools and light equipment. In 2000, our average rental period was approximately six days, and the average value per rental transaction was \$209.

Our equipment rental fleet is the largest in the world and is also one of the newest and best maintained. Our fleet includes over 500,000 units and has an original purchase price of approximately \$3.6 billion and a weighted average age of approximately 29 months. We estimate that (i) aerial work platforms accounted for approximately 24% of our equipment rental revenues in 2000, (ii) earth moving equipment accounted for approximately 13% of such revenues and (iii) forklifts accounted for approximately 10% of such revenues.

We vary our equipment mix from branch to branch in response to local market conditions and customer requirements. Most of our branches offer a general mix of equipment, while some specialize in specific equipment categories such as aerial work platforms or traffic control equipment.

Used Equipment Sales

In order to maintain a modern fleet and optimize our equipment mix, we routinely sell used rental equipment and invest in new equipment. We have generally been able to obtain favorable sales prices due to our comprehensive maintenance program and our national sales force that can access many resale markets across North America.

We principally sell used equipment through our sales force and our web site (www.unitedrentals.com) which includes an online database of used equipment available for sale. We also sell our used equipment to used equipment dealers and through public auctions. In addition, we sometimes trade in used equipment to our vendors when we buy new equipment.

New Equipment Sales

We are a dealer for many leading equipment manufacturers. These manufacturers include Genie Industries, Inc., JLG Industries, Inc., and SkyJack, Inc. (aerial lifts); Multiquip, Inc. (compaction equipment, generators, pumps and concrete equipment); Bomag and Wacker (compaction equipment); Sullair Corporation (compressors); Skytrack and Lull (rough terrain reach forklifts); Scattrack (skid-steer loaders and mini-excavators); Terex Corporation (off-road dump trucks and telehandlers); and Honda USA (pumps and generators). Typically, dealership agreements do not have a specific term and may be terminated at any time. The type of new equipment that we sell varies by location.

Related Merchandise, Parts and Other Services

At most of our locations, we sell equipment parts and a variety of supplies and merchandise that may be used with our rental equipment, such as saw blades, fasteners, drill bits, hard hats, gloves and other safety equipment. At some of our branches, we also offer repair and maintenance services for equipment that is owned by our customers.

Our Rentalman(TM) Software

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We have a subsidiary that develops and markets software for use by equipment rental companies in managing and operating multiple branch locations. Seven of the ten largest equipment rental companies, including United Rentals, use the Rentalman(TM) software package developed by our subsidiary.

Customers

Our customer base is highly diversified and ranges from Fortune 500 companies to small businesses and homeowners. No single customer accounted for more than 0.5% of our revenues during 2000 and our top 10 customers accounted for approximately 2% of our revenues in 2000.

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Our customer base varies by branch and is determined by several factors, including the equipment mix and marketing focus of the particular branch and the business composition of the local economy. Our customers include:

- . construction companies that use equipment for building and renovating commercial buildings, warehouses, industrial and manufacturing plants, office parks, airports, residential developments and other facilities;
- . industrial companies--such as manufacturers, chemical companies, paper mills, railroads, ship builders and utilities--that use equipment for plant maintenance, upgrades, expansion and construction;
- . municipalities that require equipment for a variety of purposes, such as traffic control and highway construction and maintenance;
- . sponsors of sporting, corporate, entertainment and other large special events--including events such as the Super Bowl, the U.S. Open Golf Championship, the NASCAR Brickyard 400, the PGA Championship, the Ryder Cup, concerts and charity events; and
- . homeowners and other individuals that use equipment for projects that range from simple repairs to major renovations.

Sales and Marketing

We market our products and services through multiple channels as described below.

Sales Force. As of August 10, 2001, we had a total of 2,528 salespeople, including 1,19