UNITED RENTALS INC /DE
Form 10-Q
April 20, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-14387
Commission File Number 1-13663

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

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

Registrants' Telephone Number, Including Area Code: (203) 622-3131
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No
As of April 18, 2016, there were 88,502,401 shares of United Rentals, Inc. common stock, $0.01 par value, outstanding. There is no market for the common stock of United Rentals (North America), Inc., all outstanding shares

of which are owned by United Rentals, Inc.

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

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UNITED RENTALS, INC.
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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

- the possibility that companies that we have acquired or may acquire, in our specialty business or otherwise, could have undiscovered liabilities or involve other unexpected costs, may strain our management capabilities or may be difficult to integrate;
- the cyclical nature of our business, which is highly sensitive to North American construction and industrial activities; if construction or industrial activity decline, our revenues and, because many of our costs are fixed, our profitability may be adversely affected;
- our significant indebtedness (which totaled $7.8 billion at March 31, 2016) requires us to use a substantial portion of our cash flow for debt service and can constrain our flexibility in responding to unanticipated or adverse business conditions;
- inability to refinance our indebtedness on terms that are favorable to us, or at all;
- incurrence of additional debt, which could exacerbate the risks associated with our current level of indebtedness;
- noncompliance with financial or other covenants in our debt agreements, which could result in our lenders terminating the agreements and requiring us to repay outstanding borrowings;
- restrictive covenants and amount of borrowings permitted in our debt instruments, which can limit our financial and operational flexibility;
- overcapacity of fleet in the equipment rental industry;
- inability to benefit from government spending, including spending associated with infrastructure projects;
- fluctuations in the price of our common stock and inability to complete stock repurchases in the time frame and/or on the terms anticipated;
- rates we charge and time utilization we achieve being less than anticipated;
- inability to manage credit risk adequately or to collect on contracts with a large number of customers;
- inability to access the capital that our businesses or growth plans may require;
- incurrence of impairment charges;
- trends in oil and natural gas could adversely affect the demand for our services and products;
- the fact that our holding company structure requires us to depend in part on distributions from subsidiaries and such distributions could be limited by contractual or legal restrictions;
- increases in our loss reserves to address business operations or other claims and any claims that exceed our established levels of reserves;
- incurrence of additional expenses (including indemnification obligations) and other costs in connection with litigation, regulatory and investigatory matters;
- the outcome or other potential consequences of regulatory matters and commercial litigation;
- shortfalls in our insurance coverage;
- our charter provisions as well as provisions of certain debt agreements and our significant indebtedness may have the effect of making more difficult or otherwise discouraging, delaying or deterring a takeover or other change of control of us;

- turnover in our management team and inability to attract and retain key personnel;
- costs we incur being more than anticipated, and the inability to realize expected savings in the amounts or time frames planned;
- dependence on key suppliers to obtain equipment and other supplies for our business on acceptable terms;
- inability to sell our new or used fleet in the amounts, or at the prices, we expect;
- competition from existing and new competitors;
- risks related to security breaches, cybersecurity attacks and other significant disruptions in our information technology systems;
- the costs of complying with environmental, safety and foreign law and regulations, as well as other risks associated with non-U.S. operations, including currency exchange risk;

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

For a more complete description of these and other possible risks and uncertainties, please refer to our Annual Report on Form 10-K for the year ended December 31, 2015, as well as to our subsequent filings with the SEC. Our forward-looking statements contained herein speak only as of the date hereof, and we make no commitment to update or publicly release any revisions to forward-looking statements in order to reflect new information or subsequent events, circumstances or changes in expectations.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2016 (unaudited)	December 31, 2015
ASSETS		
Cash and cash equivalents	$ 219	$ 179
Accounts receivable, net of allowance for doubtful accounts of $57 at March 31, 2016 and $55 at December 31, 2015	833	930
Inventory	74	69
Prepaid expenses and other assets	56	116
Total current assets	1,182	1,294
Rental equipment, net	6,025	6,186
Property and equipment, net	442	445
Goodwill	3,262	3,243
Other intangible assets, net	864	905
Other long-term assets	9	10
Total assets	$ 11,784	$ 12,083
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term debt and current maturities of long-term debt	$ 550	$ 607
Accounts payable	330	271
Accrued expenses and other liabilities	349	355
Total current liabilities	1,229	1,233
Long-term debt	7,203	7,555
Deferred taxes	1,797	1,765
Other long-term liabilities	54	54
Total liabilities	10,283	10,607
Common stock—$0.01 par value, 500,000,000 shares authorized, 111,892,071 and 89,376,656 shares issued and outstanding, respectively, at March 31, 2016 and 111,586,585 and 91,776,436 shares issued and outstanding, respectively, at December 31, 2015	1	1
Additional paid-in capital	2,221	2,197
Retained earnings	1,180	1,088
Treasury stock at cost—22,515,415 and 19,810,149 shares at March 31, 2016 and December 31, 2015, respectively	(1,714)	(1,560)
Accumulated other comprehensive loss	(187)	(250)
Total stockholders' equity	1,501	1,476
Total liabilities and stockholders' equity	$ 11,784	$ 12,083

See accompanying notes.

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

	Three Months Ended March 31,	
	2016	2015
Revenues:		
Equipment rentals	$1,117	$1,125
Sales of rental equipment	115	116
Sales of new equipment	30	33
Contractor supplies sales	19	18
Service and other revenues	29	23
Total revenues	1,310	1,315
Cost of revenues:		
Cost of equipment rentals, excluding depreciation	449	444
Depreciation of rental equipment	243	235
Cost of rental equipment sales	68	64
Cost of new equipment sales	25	27
Cost of contractor supplies sales	13	12
Cost of service and other revenues	12	9
Total cost of revenues	810	791
Gross profit	500	524
Selling, general and administrative expenses	177	181
Merger related costs	—	(27)
Restructuring charge	2	1
Non-rental depreciation and amortization	67	69
Operating income	254	300
Interest expense, net	107	121
Other income, net	—	(3)
Income before provision for income taxes	147	182
Provision for income taxes	55	67
Net income	$92	$115
Basic earnings per share	$1.01	$1.19
Diluted earnings per share	$1.01	$1.16

See accompanying notes.

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

	Three Months Ended March 31,	
	2016	2015
Net income	$92	$115
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	62	(89)
Fixed price diesel swaps	1	—
Other comprehensive income (loss)	63	(89)
Comprehensive income (1)	$155	$26

(1)There were no material reclassifications from accumulated other comprehensive loss reflected in other comprehensive income (loss) during 2016 or 2015. There is no tax impact related to the foreign currency translation adjustments, as the earnings are considered permanently reinvested. There were no material taxes associated with other comprehensive income (loss) during 2016 or 2015.

See accompanying notes.

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

	Common Stock				Treasury Stock		
	Number of Shares (1)	Amount	Additional Paid-in Capital	Retained Earnings	Number of Shares	Amount	Accumulated Other Comprehensive (Loss) Income (2)
Balance at December 31, 2015	92	$ 1	$ 2,197	$ 1,088	20	$(1,560)	$ (250)
Net income				92			
Foreign currency translation adjustments							62
Fixed price diesel swaps							1
Stock compensation expense, net			9				
Shares repurchased and retired			(10)				
Repurchase of common stock	(3)				3	(154)	
Excess tax benefits from share-based payment arrangements, net			25				
Balance at March 31, 2016	89	$ 1	$ 2,221	$ 1,180	23	$(1,714)	$ (187)

(1)Common stock outstanding decreased by approximately 6 million net shares during the year ended December 31, 2015.
(2)The Accumulated Other Comprehensive Loss balance primarily reflects foreign currency translation adjustments.

See accompanying notes.

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

	Three Months Ended March 31, 2016	2015
Cash Flows From Operating Activities:		
Net income	$92	$115
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	310	304
Amortization of deferred financing costs and original issue discounts	2	3
Gain on sales of rental equipment	(47)	(52)
Gain on sales of non-rental equipment	(1)	(2)
Stock compensation expense, net	9	14
Merger related costs	—	(27)
Restructuring charge	2	1
Loss on repurchase/redemption of debt securities and amendment of ABL facility	—	2
Excess tax benefits from share-based payment arrangements	(27)	—
Increase in deferred taxes	25	39
Changes in operating assets and liabilities, net of amounts acquired:		
Decrease in accounts receivable	103	81
Increase in inventory	(4)	(4)
Decrease in prepaid expenses and other assets	64	18
Increase in accounts payable	56	184
Increase (decrease) in accrued expenses and other liabilities	20	(1)
Net cash provided by operating activities	604	675
Cash Flows From Investing Activities:		
Purchases of rental equipment	(100)	(323)
Purchases of non-rental equipment	(23)	(22)
Proceeds from sales of rental equipment	115	116
Proceeds from sales of non-rental equipment	4	4
Purchases of other companies, net of cash acquired	(13)	—
Net cash used in investing activities	(17)	(225)
Cash Flows From Financing Activities:		
Proceeds from debt	914	2,736
Payments of debt	(1,337)	(2,704)
Common stock repurchased	(164)	(343)
Payments of financing costs	—	(24)
Excess tax benefits from share-based payment arrangements	27	—
Net cash used in financing activities	(560)	(335)
Effect of foreign exchange rates	13	(16)
Net increase in cash and cash equivalents	40	99
Cash and cash equivalents at beginning of period	179	158
Cash and cash equivalents at end of period	$219	$257
Supplemental disclosure of cash flow information:		
Cash received for income taxes, net	$(53)	$(35)
Cash paid for interest	69	91

See accompanying notes.

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

1. Organization, Description of Business and Basis of Presentation

United Rentals, Inc. (“Holdings,” “URI” or the “Company”) is principally a holding company and conducts its operations primarily through its wholly owned subsidiary, United Rentals (North America), Inc. (“URNA”), and subsidiaries of URNA. Holdings’ primary asset is its sole ownership of all issued and outstanding shares of common stock of URNA. URNA’s various credit agreements and debt instruments place restrictions on its ability to transfer funds to its shareholder.

We rent equipment to a diverse customer base that includes construction and industrial companies, manufacturers, utilities, municipalities, homeowners and government entities in the United States and Canada. In addition to renting equipment, we sell new and used rental equipment, as well as related contractor supplies, parts and service.

We have prepared the accompanying unaudited condensed consolidated financial statements in accordance with the accounting policies described in our annual report on Form 10-K for the year ended December 31, 2015 (the “2015 Form 10-K”) and the interim reporting requirements of Form 10-Q. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the 2015 Form 10-K.

In our opinion, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of financial condition, operating results and cash flows for the interim periods presented have been made. Interim results of operations are not necessarily indicative of the results of the full year.

New Accounting Pronouncements

Revenue from Contracts with Customers. In May 2014, and in subsequent updates, the Financial Accounting Standards Board (“FASB”) issued guidance to clarify the principles for recognizing revenue. This guidance includes the required steps to achieve the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB has agreed to a one-year deferral of the original effective date of this guidance and as a result it will be effective for fiscal years and interim periods beginning after December 15, 2017. The FASB's update allows entities to apply the new guidance as of the original effective date (for fiscal years and interim periods beginning after December 15, 2016). We expect to adopt this guidance when effective, and the impact on our financial statements is not currently estimable.

Leases. In March 2016, the FASB issued guidance (“Topic 842”) to increase transparency and comparability among organizations by requiring i) recognition of lease assets and lease liabilities on the balance sheet and ii) disclosure of key information about leasing arrangements. The accounting applied by lessors under Topic 842 is largely unchanged from previous GAAP. Some changes to the lessor accounting guidance were made to align both of the following: i) the lessor accounting guidance with certain changes made to the lessee accounting guidance and ii) key aspects of the lessor accounting model with revenue recognition guidance. Topic 842 will be effective for fiscal years and interim periods beginning after December 15, 2018, and early adoption is permitted. A modified retrospective approach is required for adoption for all leases that exist at or commence after the date of initial application with an option to use certain practical expedients. We are currently assessing whether we will early adopt, and the impact on our financial statements is not currently estimable.

Improvements to Employee Share-Based Payment Accounting. In March 2016, the FASB issued guidance to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance will be effective for fiscal years and interim periods beginning after December 15, 2016, and early adoption is permitted. Different components of the guidance require prospective, retrospective and/or modified retrospective adoption. We are currently assessing whether we will early adopt, and the impact on our financial statements is not currently estimable.

2. Segment Information

Our reportable segments are i) general rentals and ii) trench, power and pump. The general rentals segment includes the rental of i) general construction and industrial equipment, such as backhoes, skid-steer loaders, forklifts, earthmoving equipment and material handling equipment, ii) aerial work platforms, such as boom lifts and scissor lifts and iii) general tools and light equipment, such as pressure washers, water pumps and power tools. The general rentals segment reflects the aggregation of nine geographic regions—Industrial (which serves the geographic Gulf region and has a strong industrial presence), Mid-Atlantic, Midwest, Northeast, Pacific West, South-Central, South, Southeast and Western Canada—and operates throughout the United States and Canada.

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

The trench, power and pump segment includes the rental of specialty construction products such as i) trench safety equipment, such as trench shields, aluminum hydraulic shoring systems, slide rails, crossing plates, construction lasers and line testing equipment for underground work, ii) power and HVAC equipment, such as portable diesel generators, electrical distribution equipment, and temperature control equipment and iii) pumps primarily used by energy and petrochemical customers. The trench, power and pump segment is comprised of the following regions, each of which primarily rents the corresponding equipment type described above: (i) the Trench Safety region, (ii) the Power and HVAC region, and (iii) the Pump Solutions region. The trench, power and pump segment's customers include construction companies involved in infrastructure projects, municipalities and industrial companies. This segment operates throughout the United States and in Canada.

These segments align our external segment reporting with how management evaluates and allocates resources. We evaluate segment performance based on segment equipment rentals gross profit.

The following tables set forth financial information by segment.

	General rentals	Trench, power and pump	Total
Three Months Ended March 31, 2016			
Equipment rentals	$ 955	$ 162	$1,117
Sales of rental equipment	106	9	115
Sales of new equipment	26	4	30
Contractor supplies sales	16	3	19
Service and other revenues	26	3	29
Total revenue	1,129	181	1,310
Depreciation and amortization expense	266	44	310
Equipment rentals gross profit	357	68	425
Capital expenditures	104	19	123
Three Months Ended March 31, 2015			
Equipment rentals	$ 976	$ 149	$1,125
Sales of rental equipment	108	8	116
Sales of new equipment	26	7	33
Contractor supplies sales	15	3	18
Service and other revenues	19	4	23
Total revenue	1,144	171	1,315
Depreciation and amortization expense	262	42	304
Equipment rentals gross profit	383	63	446
Capital expenditures	311	34	345

	March 31, 2016	December 31, 2015
Total reportable segment assets		
General rentals	$ 10,281	$ 10,561
Trench, power and pump	1,503	1,522
Total assets	$ 11,784	$ 12,083

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

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

	Three Months Ended March 31,	
	2016	2015
Total equipment rentals gross profit	$425	$446
Gross profit from other lines of business	75	78
Selling, general and administrative expenses	(177)	(181)
Merger related costs	—	27
Restructuring charge	(2)	(1)
Non-rental depreciation and amortization	(67)	(69)
Interest expense, net	(107)	(121)
Other income, net	—	3
Income before provision for income taxes	$147	$182

3. Restructuring Charges

Closed Restructuring Programs

We have two closed restructuring programs. The first was initiated in 2008 in recognition of a challenging economic environment and was completed in 2011. The second closed restructuring program was initiated following the April 30, 2012 acquisition of RSC Holdings Inc. ("RSC"), and was completed in 2013. The restructuring charges under the closed restructuring programs include severance costs associated with headcount reductions, as well as branch closure charges which principally relate to continuing lease obligations at vacant facilities.

2015-2016 Cost Savings Restructuring Program

In the fourth quarter of 2015, we initiated a restructuring program in response to challenges in our operating environment. In particular, during 2015, we experienced volume and pricing pressure in our general rental business and our Pump Solutions region associated with upstream oil and gas customers. Additionally, our Lean initiatives did not fully generate the anticipated cost savings due to lower than expected growth. Though we expect solid industry growth in 2016 and in the foreseeable future, the restructuring program was initiated in an effort to reduce costs in an environment with continuing pressures on volume and pricing. We expect to complete the restructuring program in 2016. The total costs expected to be incurred in connection with the program are not currently estimable, as we are still identifying the actions that will be undertaken.

The table below provides certain information concerning our restructuring charges for the three months ended March 31, 2016:

Description	Reserve Balance at December 31, 2015	Charged to Costs and Expenses (1)	Payments and Other	Reserve Balance at March 31, 2016
Closed Restructuring Programs				
Branch closure charges	$ 13	$ —	$ (1)	$ 12
Severance costs	—	—	—	—
Total	$ 13	$ —	$ (1)	$ 12
2015-2016 Cost Savings Restructuring Program				
Branch closure charges	$ —	$ 1	$ —	$ 1
Severance costs	3	1	(1)	3

Total	$	3	$	2	$	(1	)	$	4
Total									
Branch closure charges	$	13	$	1	$	(1	)	$	13
Severance costs	3		1		(1		)	3	
Total	$	16	$	2	$	(2	)	$	16

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

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

4. Derivatives

We recognize all derivative instruments as either assets or liabilities at fair value, and recognize changes in the fair value of the derivative instruments based on the designation of the derivative. We are exposed to certain risks relating to our ongoing business operations. During the three months ended March 31, 2016 and 2015, the only risk we managed using derivative instruments was diesel price risk. At March 31, 2016, we had outstanding fixed price swap contracts on diesel purchases which were entered into to mitigate the price risk associated with forecasted purchases of diesel.

Fixed Price Diesel Swaps

The fixed price swap contracts on diesel purchases that were outstanding at March 31, 2016 were designated and qualify as cash flow hedges and the effective portion of the gain or loss on these contracts is reported as a component of accumulated other comprehensive income and is reclassified into earnings in the period during which the hedged transaction affects earnings (i.e., when the hedged gallons of diesel are used). The remaining gain or loss on the fixed price swap contracts in excess of the cumulative change in the present value of future cash flows of the hedged item, if any (i.e., the ineffective portion), is recognized in our condensed consolidated statements of income during the current period. As of March 31, 2016, we had outstanding fixed price swap contracts covering 9.7 million gallons of diesel which will be purchased throughout 2016 and 2017.

Financial Statement Presentation

As of March 31, 2016 and December 31, 2015, immaterial amounts ($6 or less) were reflected in prepaid expenses and other assets, accrued expenses and other liabilities, and accumulated other comprehensive income in our condensed consolidated balance sheets associated with the outstanding fixed price swap contracts that were designated and qualify as cash flow hedges.

The effect of our derivative instruments on our condensed consolidated statements of income for the three months ended March 31, 2016 and 2015 was as follows:

		Three Months Ended March 31, 2016		Three Months Ended March 31, 2015	
	Location of income (expense) recognized on derivative/hedged item	Amount of income (expense) recognized on derivative	Amount of income (expense) recognized on hedged item	Amount of income (expense) recognized on derivative	Amount of income (expense) recognized on hedged item
Derivatives designated as hedging instruments:					
Fixed price diesel swaps	Other income (expense), net (1)	$ *		$ *	
	Cost of equipment rentals, excluding depreciation (2), (3)	(2)	$ (5)	(2)	$ (7)

* Amounts are insignificant (less than $1).

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

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

(3) Amounts recognized on hedged item reflect the use of 2.6 million gallons and of diesel covered by the fixed price swaps during the three months ended March 31, 2016 and 2015. These amounts are reflected, net of cash received from, or paid to, the counterparties to the fixed price swaps, in operating cash flows in our condensed consolidated statement of cash flows.

5. Fair Value Measurements

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

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

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

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

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

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

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

Assets and Liabilities Measured at Fair Value

As of March 31, 2016 and December 31, 2015, our only assets and liabilities measured at fair value were our fixed price diesel swaps contracts, which are Level 2 derivatives measured at fair value on a recurring basis. As of March 31, 2016 and December 31, 2015, immaterial amounts ($6 or less) were reflected in prepaid expenses and other assets, and accrued expenses and other liabilities in our condensed consolidated balance sheets, reflecting the fair values of the fixed price diesel swaps contracts. As discussed in note 4 to the condensed consolidated financial statements, we entered into the fixed price swap contracts on diesel purchases to mitigate the price risk associated with forecasted purchases of diesel. Fair value is determined based on observable market data. As of March 31, 2016, we have fixed price swap contracts that mature throughout 2016 and 2017 covering 9.7 million gallons of diesel which we will buy at the average contract price of $2.79 per gallon, while the average forward price for the hedged gallons was $2.30 per gallon as of March 31, 2016.

Fair Value of Financial Instruments

The carrying amounts reported in our condensed consolidated balance sheets for accounts receivable, accounts payable and accrued expenses and other liabilities approximate fair value due to the immediate to short-term maturity of these financial instruments. The fair values of our senior secured asset-based revolving credit facility (“ABL facility”), accounts receivable securitization facility and capital leases approximated their book values as of March 31, 2016 and December 31, 2015. The estimated fair values of our financial instruments, all of which are categorized in Level 1 of the fair value hierarchy, as of March 31, 2016 and December 31, 2015 have been calculated based upon available market information, and were as follows:

	March 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Senior and senior subordinated notes	$5,918	$6,078	$5,916	$6,030

6. Debt

Debt, net of unamortized original issue discounts or premiums, and unamortized debt issuance costs, consists of the following:

UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	March 31, 2016	December 31, 2015
Accounts Receivable Securitization Facility (1)	$ 516	$ 571
$2.5 billion ABL Facility (2)	1,228	1,579
7 $^{3}/_{8}$ percent Senior Notes	741	740
8 $^{1}/_{4}$ percent Senior Notes	314	315
7 $^{5}/_{8}$ percent Senior Notes	1,307	1,306
6 $^{1}/_{8}$ percent Senior Notes	937	937
4 $^{5}/_{8}$ percent Senior Secured Notes	990	989
5 $^{3}/_{4}$ percent Senior Notes	838	838
5 $^{1}/_{2}$ percent Senior Notes	791	791
Capital leases	91	96
Total debt	7,753	8,162
Less short-term portion (3)	(550)	(607)
Total long-term debt	$ 7,203	$ 7,555

(1) At March 31, 2016, $14 was available under our accounts receivable securitization facility. The interest rate applicable to the accounts receivable securitization facility was 1.1 percent at March 31, 2016. During the three months ended March 31, 2016, the monthly average amount outstanding under the accounts receivable securitization facility was $502, and the weighted-average interest rate thereon was 1.1 percent. The maximum month-end amount outstanding under the accounts receivable securitization facility during the three months ended March 31, 2016 was $516. Borrowings under the accounts receivable securitization facility are permitted only to the extent that the face amount of the receivables in the collateral pool, net of applicable reserves, exceeds the outstanding loans. As of March 31, 2016, there were $530 of receivables, net of applicable reserves, in the collateral pool.

(2) At March 31, 2016, $1.2 billion was available under our ABL facility, net of $38 of letters of credit. The interest rate applicable to the ABL facility was 2.3 percent at March 31, 2016. During the three months ended March 31, 2016, the monthly average amount outstanding under the ABL facility was $1.4 billion, and the weighted-average interest rate thereon was 2.3 percent. The maximum month-end amount outstanding under the ABL facility during the three months ended March 31, 2016 was $1.6 billion.

(3) As of March 31, 2016, our short-term debt primarily reflects $516 of borrowings under our accounts receivable securitization facility.

Loan Covenants and Compliance

As of March 31, 2016, we were in compliance with the covenants and other provisions of the ABL facility, the accounts receivable securitization facility and the senior notes. Any failure to be in compliance with any material provision or covenant of these agreements could have a material adverse effect on our liquidity and operations.

The only financial covenant that currently exists under the ABL facility is the fixed charge coverage ratio. Subject to certain limited exceptions specified in the ABL facility, the fixed charge coverage ratio covenant under the ABL facility will only apply in the future if specified availability under the ABL facility falls below 10 percent of the maximum revolver amount under the ABL facility. When certain conditions are met, cash and cash equivalents and borrowing base collateral in excess of the ABL facility size may be included when calculating specified availability under the ABL facility. As of March 31, 2016, specified availability under the ABL facility exceeded the required threshold and, as a result, this maintenance covenant was inapplicable. Under our accounts receivable securitization facility, we are required, among other things, to maintain certain financial tests relating to: (i) the default ratio, (ii) the delinquency ratio, (iii) the dilution ratio and (iv) days sales outstanding. The accounts receivable securitization facility also requires us to comply with the fixed charge coverage ratio under the ABL facility, to the extent the ratio is applicable under the ABL facility.

7. Legal and Regulatory Matters

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

8. Earnings Per Share

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

	Three Months Ended March 31,	
	2016	2015
Numerator:		
Net income available to common stockholders	92	115
Denominator:		
Denominator for basic earnings per share—weighted-average common shares	90,510	97,007
Effect of dilutive securities:		
Employee stock options	263	336
4 percent Convertible Senior Notes	—	1,185
Restricted stock units	170	537
Denominator for diluted earnings per share—adjusted weighted-average common shares	90,943	99,065
Basic earnings per share	$ 1.01	$ 1.19
Diluted earnings per share	$ 1.01	$ 1.16

9. Condensed Consolidating Financial Information of Guarantor Subsidiaries

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

URNA covenants in the ABL facility, accounts receivable securitization facility and the other agreements governing our debt impose operating and financial restrictions on URNA, Parent and the guarantor subsidiaries, including limitations on the ability to make share repurchases and dividend payments. As of March 31, 2016, the amount available for distribution under the most restrictive of these covenants was $300. The Company's total available capacity for making share repurchases and dividend payments includes the intercompany receivable balance of Parent. As of March 31, 2016, our total available capacity for making share repurchases and dividend payments, which includes URNA's capacity to make restricted payments and the intercompany receivable balance of Parent, was $566.

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

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

CONDENSED CONSOLIDATING BALANCE SHEET
March 31, 2016

	Parent	URNA	Guarantor Subsidiaries	Non-Guarantor Subsidiaries Foreign	Non-Guarantor Subsidiaries SPV	Eliminations	Total
ASSETS							
Cash and cash equivalents	$—	$4	$ —	$215	$—	$ —	$219
Accounts receivable, net	—	43	—	90	700	—	833
Intercompany receivable (payable)	266	(72)	(187)	(116)	—	109	—
Inventory	—	66	—	8	—	—	74
Prepaid expenses and other assets	—	41	—	15	—	—	56
Total current assets	266	82	(187)	212	700	109	1,182
Rental equipment, net	—	5,484	—	541	—	—	6,025
Property and equipment, net	42	332	20	48	—	—	442
Investments in subsidiaries	1,215	983	986	—	—	(3,184)	—
Goodwill	—	3,007	—	255	—	—	3,262
Other intangible assets, net	—	796	—	68	—	—	864
Other long-term assets	2	7	—	—	—	—	9
Total assets	$1,525	$10,691	$ 819	$1,124	$700	$ (3,075)	$11,784
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)							
Short-term debt and current maturities of long-term debt	$1	$30	$ —	$3	$516	$ —	$550
Accounts payable	—	300	—	30	—	—	330
Accrued expenses and other liabilities	—	314	12	22	1	—	349
Total current liabilities	1	644	12	55	517	—	1,229
Long-term debt	3	7,075	116	9	—	—	7,203
Deferred taxes	20	1,703	—	74	—	—	1,797
Other long-term liabilities	—	54	—	—	—	—	54
Total liabilities	24	9,476	128	138	517	—	10,283
Total stockholders' equity (deficit)	1,501	1,215	691	986	183	(3,075)	1,501
Total liabilities and stockholders' equity (deficit)	$1,525	$10,691	$ 819	$1,124	$700	$ (3,075)	$11,784

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

CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2015

	Parent	URNA	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		Eliminations	Total
				Foreign	SPV		
ASSETS							
Cash and cash equivalents	$—	$18	$ —	$161	$—	$ —	$179
Accounts receivable, net	—	41	—	104	785	—	930
Intercompany receivable (payable)	144	40	(176)	(109)	—	101	—
Inventory	—	62	—	7	—	—	69
Prepaid expenses and other assets	—	98	—	18	—	—	116
Total current assets	144	259	(176)	181	785	101	1,294
Rental equipment, net	—	5,657	—	529	—	—	6,186
Property and equipment, net	45	334	20	46	—	—	445
Investments in subsidiaries	1,307	958	924	—	—	(3,189)	—
Goodwill	—	3,000	—	243	—	—	3,243
Other intangible assets, net	—	838	—	67	—	—	905
Other long-term assets	3	7	—	—	—	—	10
Total assets	$1,499	$11,053	$ 768	$1,066	$785	$ (3,088)	$12,083
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)							
Short-term debt and current maturities of long-term debt	$1	$34	$ —	$—	$572	$ —	$607
Accounts payable	—	237	—	34	—	—	271
Accrued expenses and other liabilities	—	314	14	27	—	—	355
Total current liabilities	1	585	14	61	572	—	1,233
Long-term debt	4	7,430	110	11	—	—	7,555
Deferred taxes	18	1,677	—	70	—	—	1,765
Other long-term liabilities	—	54	—	—	—	—	54
Total liabilities	23	9,746	124	142	572	—	10,607
Total stockholders' equity (deficit)	1,476	1,307	644	924	213	(3,088)	1,476
Total liabilities and stockholders' equity (deficit)	$1,499	$11,053	$ 768	$1,066	$785	$ (3,088)	$12,083

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

CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME
For the Three Months Ended March 31, 2016

	Parent	URNA	Guarantor Subsidiaries	Non-Guarantor Subsidiaries Foreign	Non-Guarantor Subsidiaries SPV	Eliminations	Total
Revenues:							
Equipment rentals	$ —	$1,024	$ —	$ 93	$ —	$ —	$1,117
Sales of rental equipment	—	104	—	11	—	—	115
Sales of new equipment	—	27	—	3	—	—	30
Contractor supplies sales	—	17	—	2	—	—	19
Service and other revenues	—	25	—	4	—	—	29
Total revenues	—	1,197	—	113	—	—	1,310
Cost of revenues:							
Cost of equipment rentals, excluding depreciation	—	404	—	45	—	—	449
Depreciation of rental equipment	—	221	—	22	—	—	243
Cost of rental equipment sales	—	62	—	6	—	—	68
Cost of new equipment sales	—	23	—	2	—	—	25
Cost of contractor supplies sales	—	12	—	1	—	—	13
Cost of service and other revenues	—	9	—	3	—	—	12
Total cost of revenues	—	731	—	79	—	—	810
Gross profit	—	466	—	34	—	—	500
Selling, general and administrative expenses	6	144	—	19	8	—	177
Merger related costs	—	—	—	—	—	—	—
Restructuring charge	—	2	—	—	—	—	2
Non-rental depreciation and amortization	4	57	—	6	—	—	67
Operating (loss) income	(10)	263	—	9	(8)	—	254
Interest (income) expense, net	(2)	106	1	1	2	(1)	107
Other (income) expense, net (1)	(106)	122	—	9	(25)	—	—
Income (loss) before provision (benefit) for income taxes	98	35	(1)	(1)	15	1	147
Provision (benefit) for income taxes	37	13	—	(1)	6	—	55
Income (loss) before equity in net earnings (loss) of subsidiaries	61	22	(1)	—	9	1	92
Equity in net earnings (loss) of subsidiaries	31	9	—	—	—	(40)	—
Net income (loss)	92	31					