



2005 annual report



**United[®]
Rentals**

united rentals

is the world's largest equipment rental company, uniquely positioned to serve a diverse customer base including construction and industrial customers, utilities, municipalities, homeowners and others. We offer our customers many benefits:

- 13,400 knowledgeable employees operating an integrated network of more than 750 rental locations in 48 states, 10 Canadian provinces and Mexico
- The largest fleet of rental equipment in the world — over 260,000 units with an original cost of \$3.9 billion
- More than 20,000 classes of equipment, including construction equipment, industrial and heavy machinery, aerial work platforms, traffic control equipment, trench safety equipment and homeowner items
- Quality new and used equipment, contractor supplies, parts and service for sale
- A well-developed infrastructure that supports our full range of services, including comprehensive safety training and round-the-clock emergency assistance
- Industry-leading information technology that electronically links our branches and provides our customers with access to every piece of equipment in our fleet
- Customer-friendly online services, including URdata® account management, a comprehensive website and United Rentals Certified Auctions on eBay®
- Knowledgeable industry veterans who run our branches and ensure that when a customer comes to us with a project need, they can Consider It Done.

Contents

Page 1
Financial Highlights

Page 2
Letter to Shareholders

Page 8
Boca Raton
Backhoe

Page 10
Washington, D.C.
Boom Lift

Page 12
St. Louis
Reach Forklift

Page 14
Whistler
Portable Heat System



Page 16
New Orleans
Aerial Work Platforms

Page 18
Charleston
Telescopic Lift

Page 20
Salt Lake City
Slide Rail System

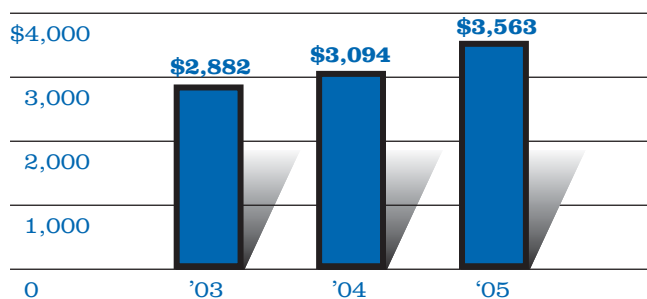
Page 22
Detroit
Warehouse Forklift

financial highlights

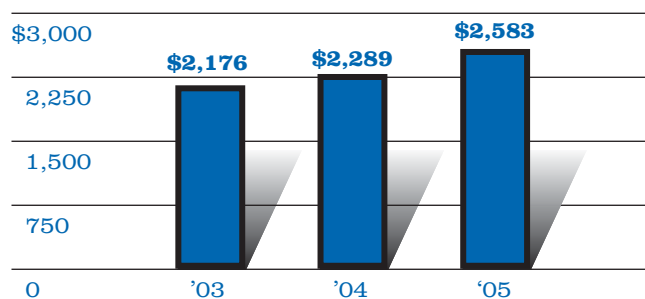
(\$ millions, unless otherwise indicated)

	2003	2004	2005
Total Revenues	\$2,882	\$3,094	\$3,563
Equipment Rental Revenues	2,176	2,289	2,583
Contractor Supplies Sales	184	225	324
Dollar Utilization	57.1%	59.9%	65.1%
Original Equipment Cost (\$ billions)	\$ 3.5	\$ 3.7	\$ 3.9

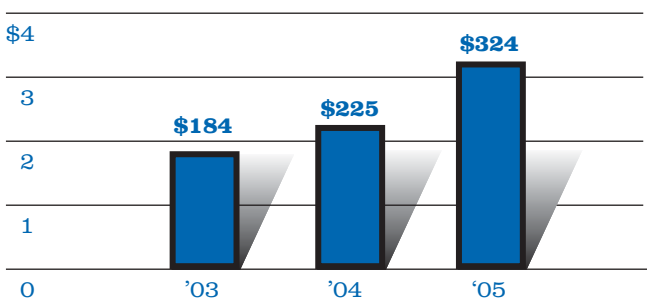
Total Revenues



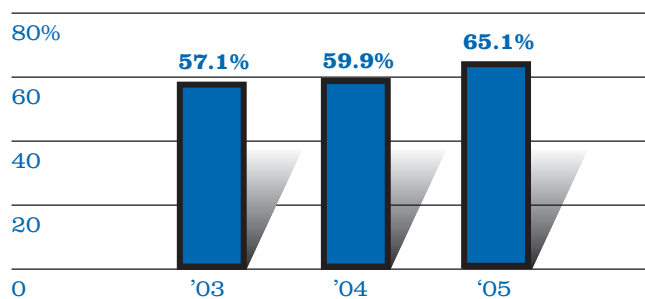
Equipment Rental Revenues



Contractor Supplies Sales

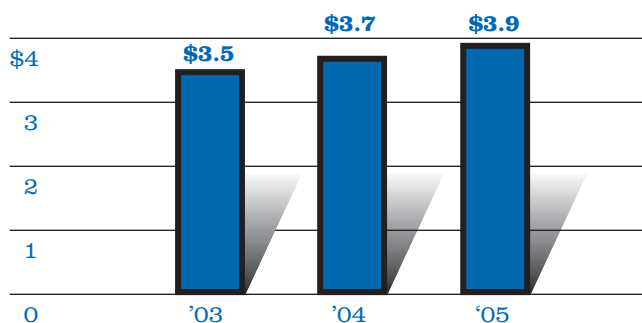


Dollar Utilization



Original Equipment Cost

(\$ billions)



dear fellow shareholders

United Rentals delivered significant growth and record revenues in 2005. We increased our total revenues 15.2% to \$3.56 billion, outpacing the gradual improvement in our operating environment. This acceleration in our revenue growth from 2004 was driven by a combination of organic growth in our core business, rental rate improvement, and expanding contractor supplies sales, supported by growth in our primary end market. Our operating income in 2005 was \$500 million and net income was \$187 million, up 95% and \$271 million, respectively, from 2004. Diluted earnings per share were \$1.80, exceeding our outlook for the year.

Net cash from operations and the proceeds from sales of rental equipment were \$950 million. Of this amount, we spent \$578 million for replacement capital needed

Our revenue growth was driven by a combination of organic growth in our core business, rental rate improvement, and expanding contractor supplies sales, supported by growth in our primary end market.

to maintain the size and age of our existing rental fleet and \$163 million to expand the fleet. Our free cash flow, after total rental and non-rental capital expenditures of \$823 million, was \$130 million. We invested \$40 million of this free cash flow in acquisitions.

We achieved improvements in several key operating metrics in 2005. All three segments of our business generated higher returns, and total revenues grew 15.2%. This outpaced growth in our primary end market, private

non-residential construction, which increased 5.2% last year according to Department of Commerce data. Dollar utilization was a record 65.1%, an increase of 5.2 percentage points from 2004. Organic growth remained strong throughout 2005, with a full-year increase of 11.8% in same-store rental revenues. This included a 23% increase in same-store rental revenues for our trench safety, pump and power business.

Early in 2005 we identified three key initiatives, which we have vigorously pursued. These initiatives supported our stated goals of driving revenue growth, improving our margins and increasing our return on capital. Our immediate priorities were to drive a further improvement in rental rates, maintain strong organic growth, and expand our contractor supplies business.

Our employees understand that our rates initiative, with its corresponding impact on profitability, allows us to continue to provide our customers with superior service and the largest and most diverse fleet in the industry.

We made progress on all three initiatives in 2005. We were able to increase rates by an additional 6%, following the 7.5% increase we achieved in 2004. The combination of these increases helped us generate more than \$250 million in incremental revenue last year, and we believe there are additional pricing opportunities. Our employees understand that our rates initiative, with its corresponding impact on profitability, allows us to continue to provide our customers with superior service and the largest and most diverse fleet in the industry.

We opened 37 new locations in 2005, with a quarter of them focused on market opportunities in trench safety, pump and power rentals. In addition, we enhanced our network with two acquisitions, the HSS RentX Colorado locations and Sandvick Equipment & Supply Company. The Sandvick acquisition extended our presence in trench safety, where we lead the industry.

We also completed our contractor supplies distribution network with the opening of six regional warehouse facilities, bringing the total to nine. We are now in a position to expedite deliveries and expand our product lines. The growth in our contractor supplies sales was nothing short of explosive in 2005. Revenues increased 44% from 2004 to \$324 million, even without the full benefit of our new infrastructure. We anticipate that our contractor supplies program will continue to grow in importance, both financially and as a competitive differentiator. The 9,200 different supply items we offer are a compelling example of the one-stop shopping convenience we provide to our customers.

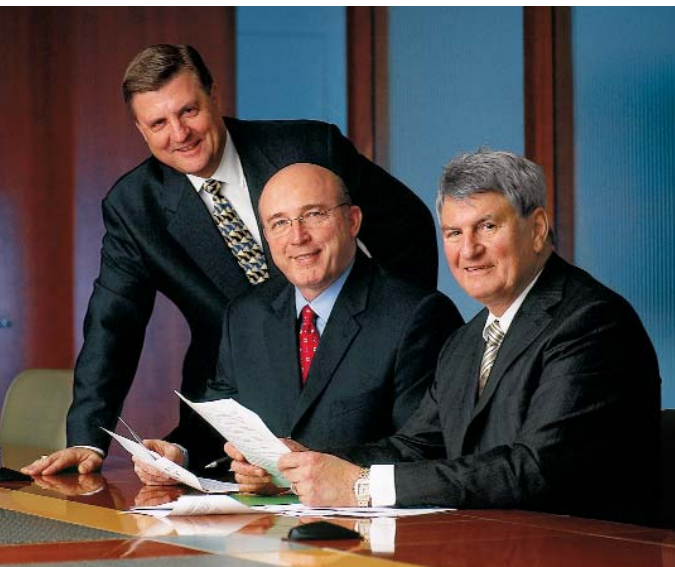
These accomplishments, together with the absence of goodwill impairment and refinancing charges incurred in 2004, were largely responsible for the improvement in our results in 2005. We made capital investments of \$823 million, including \$741 million invested in new rental equipment, which allowed us to grow faster than our end markets. Our return on invested capital improved 2.4 percentage points to 12% in 2005 and we ended the year with \$316 million of cash.

At the same time, we had a number of internal challenges to address. The ongoing inquiry by the Securities and Exchange Commission, initiated in 2004, resulted in an extensive internal review by a special committee of our board of directors. We continue to cooperate

fully with the SEC in an effort to resolve their inquiry. United Rentals is dedicated to the highest standards of conduct in our business.

There is every indication that 2006 will be another strong year for United Rentals. The construction market is continuing to improve. At the same time, equipment rental is growing in importance to contractors who are increasingly renting equipment as an alternative to owning their own. For our part, we continue to drive our business forward with a passion for customer service and a determination to increase our return on capital. This requires good people and we have more than 13,000 of the best.

In the short-term, we have extended our three key initiatives in 2006. We expect further improvements in our rental rates, which represent the single most important action we can take to further enhance our profitability. We also expect to benefit from the investment in our contractor supplies infrastructure and achieve further marketplace penetration. We remain focused on expanding our network and plan to open another 30 to 35 new branches in 2006. We also expect to continue to grow the business by way of acquisition.



(from left)
Martin Welch, executive vice president
and chief financial officer,
Michael Kneeland, executive vice president — Operations,
Wayland Hicks, chief executive officer

We will continue to increase the size of our rental fleet in existing locations and invest in high-growth categories such as trench safety services, pump rentals and power generation. As always, our fleet decisions are guided by the evolving needs of our customers. Our 2006 plan calls for the investment of \$175 million to \$200 million in growth capital for new rental equipment and \$625 million to \$650 million in replacement capital required to maintain the size and age of our rental fleet.

In 2006, our plan anticipates that we will continue to grow at a faster pace than private non-residential construction, our primary end market. End market growth, combined



with strategic investments and our inherent operating leverage, should generate substantial bottom line improvement. We expect to achieve diluted earnings per share of \$2.13 to \$2.23 and \$4.0 billion in total revenues.

Two years ago in my letter to shareholders, I stated that our goal was to double the size of the business over five years following a recovery in our primary end market. We are now in the second year following that recovery, and our plans are solidly in place to realize that goal. We will accomplish this with the help of highly motivated employees and the leadership of an experienced management team.

Our 2006 plan anticipates diluted earnings per share of \$2.13 to \$2.23 with \$4.0 billion in total revenues.

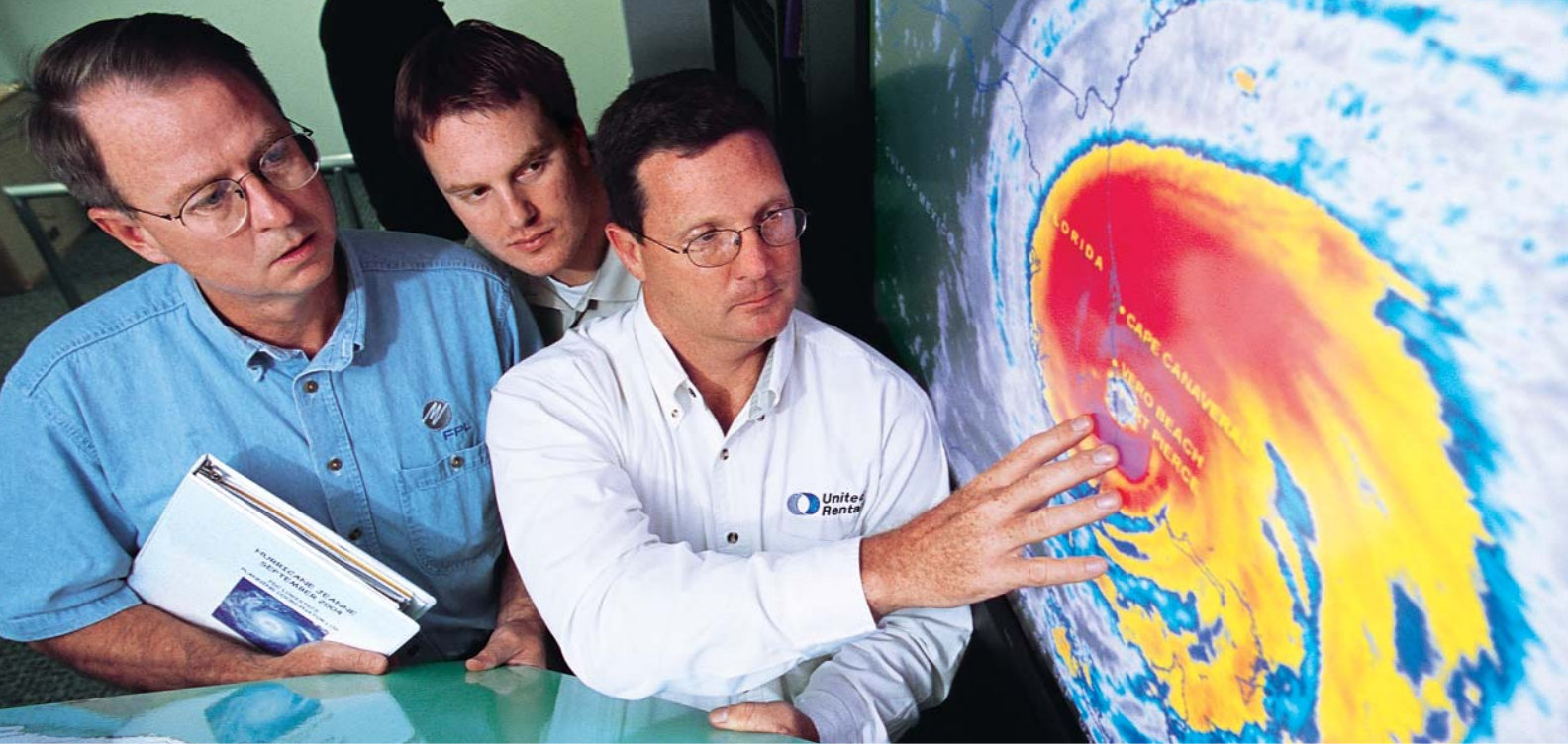
I am particularly pleased that Martin Welch joined us early this year as executive vice president and chief financial officer. Marty is a seasoned financial leader with a talent for establishing robust financial organizations.

Looking beyond 2006, the North American equipment rental market presents tremendous opportunities for United Rentals, as do the related markets for equipment sales, service and contractor supplies. The investments we have been making in the business will enable us to take advantage of these growth opportunities. Our results in 2005 and our five-year outlook are consistent with the vision that has shaped our company since its inception — to make this business a success for every stakeholder in United Rentals.



Wayland Hicks
Chief Executive Officer

April 30, 2006



boca



In the Southeast, United Rentals responded around the clock as Florida communities faced a seemingly endless series of storms. Our people played a key role in setting up dozens of emergency staging areas, many within 24 hours, as Florida Power & Light (FPL) worked to restore power to millions of customers. “It was a remarkable feat,” said Keith White (left), FPL logistics manager, integrated supply chain. “It gave our crews the best conditions to work under so that we could be as productive as possible, as quickly as possible.” Rhys Butler (center), United Rentals’ national accounts coordinator, and David Murphy (right), branch manager, coordinated the rental of hundreds of light towers, forklifts, pallet jacks and emergency signs.



raton

United Rentals grew revenues from \$3.09 billion in 2004 to \$3.56 billion in 2005 in our primary market’s second year of recovery. Spending in our primary end market, private non-residential construction, increased 5.2% year-over-year. We expect spending in private non-residential construction — the driving force behind our industry’s growth — to continue to grow at moderate levels in 2006.

Growth is a defining characteristic of the U.S. equipment rental industry, where revenues were estimated to be \$31 billion in 2005. This represents a compound annual growth rate of more than 9% since 1990. While our industry has proven sensitive to changes in construction activity and equipment demand, it also reacts favorably to the changing needs of our customers. Paramount among these needs is the trend toward renting equipment rather than owning it. Given any market conditions, more and more equipment end users are recognizing the many benefits of equipment rental.

These benefits include the elimination of large capital outlays and the avoidance of costs related to storage, maintenance, insurance and other ownership responsibilities. The appeal of renting has also been influenced by research and development conducted by our industry’s leading manufacturers. As new and better equipment technologies come to market, rental companies assume the costs of investing in



Opposite Page

The impressive Woodrow Wilson Bridge project has a seven and a half mile footprint that begins in Maryland and connects to Virginia over the Potomac River. Crews are working to replace the existing bridge and upgrade four interchanges to ease congestion in the area. United Rentals' Kevin Hernon (left), senior risk control manager, and Susan Nichols (center), sales representative, were a familiar presence at the site, where three bridge specialist companies have partnered under the name Potomac Constructors. By 2008, they will have built the largest drawspan bridge in the world. To date, United Rentals has supplied more than 250 pieces of equipment, and yet that's only half the story. "We insist on same-day response time on service calls and ongoing safety orientation for our workers," said Jarred Musser (right), field engineer for Potomac Constructors. "These are two services that United Rentals performs very well."

washing

these technologies to make them available to customers. New models and expanded rental fleets result in better productivity for the end user, who can utilize the ideal equipment for the job. Productivity — and ultimately satisfaction — is a tremendous customer motivator in our business.

United Rentals' business model allows our company to capitalize on the full potential of an expanding marketplace. In 2005, for example, our revenues were largely driven by strong organic growth, rental rate improvement and an increase in contractor supplies sales, supported by growth in our primary end market. These results are rooted in a widespread and effective branch network, superior equipment fleet, knowledgeable people and our ability to provide one-stop shopping convenience. By meeting our customers' every jobsite need, we are able to ask for and receive better rates.

Our branch network is the point of customer contact for the majority of our business. We currently operate more than 750 branches that serve 1.6 million customers in the United States, Canada and Mexico. The expansion of our rental network figures prominently into our growth strategy. Our footprint is designed to capitalize on sustained construction activity by expanding our penetration in some areas, and extending into other areas where our presence can attract new business.



ton, d.c.





st.

An important component of our branch network is its strategic placement of rental assets — our equipment fleet. The majority of our branches make up our general rentals business. These locations offer a wide range of general construction and industrial equipment for rent, including aerial work platforms. In addition, we have dedicated branches associated with our traffic control business, and our trench safety, pump and power business. These locations carry specialized equipment and provide specialized services as well. In total, we offer more than 20,000 classes of equipment for rent on an hourly, daily, weekly or monthly basis.

Purchases of new rental fleet are carefully planned by location, to optimize our investment. Branches are encouraged to share equipment and information, improving utilization and customer service. Our dollar utilization in 2005 reached a record 65.1%, up 5.2 percentage points from 2004. We routinely transfer equipment between branches on a short-term or permanent basis. This is especially true when a particular asset might generate better returns at a neighboring branch, or when one of our rental locations does not have a particular piece of equipment readily available. Occasionally, equipment is redeployed to meet extreme customer needs, as was the case with hurricanes Katrina and Rita in 2005. Our emergency response call center was able to route equipment and contractor supplies to the hardest-hit areas of the Gulf Coast, drawing on fleet and employees from throughout our network.

St. Louis Cardinals fans have been eagerly awaiting their new, downtown baseball stadium, with its custom-built village of retail shops and attractions. The 130-ft.-tall structure covers more than 12 acres and is equally impressive when viewed from the ground or from high atop one of our 80-ft. boom lifts. Kim Cliffe (left), sales representative for United Rentals, visited the site during construction to review equipment requirements with Gordon Wright, project supervisor for Sachs Electric Company. “Our companies share similar business perspectives,” said Wright. “Sachs Electric was founded in 1925 based on a vision for providing every customer with quality work and personal service. Our experience is that United Rentals places the same importance on customer relationships.” When the call went out for 20 boom lifts and 80 scissor lifts, our company stepped up to the plate.



louis





Construction of the massive infrastructure for the 2010 Olympic Winter Games began years in advance near Vancouver, British Columbia, where United Rentals helped general contractor PCL keep productivity humming through a cold Canadian winter. Diana Harrison (left), PCL site safety coordinator, and Douglas Head (right), sales representative for United Rentals, discussed climate control during work on the Delta Hotel in Whistler. “The Olympic construction plan is very ambitious. It requires intense cooperation among all the companies involved,” said Harrison. “We’ve built a relationship with United Rentals as a national account. We consider them part of the team.” United Rentals was on site from start to finish, supplying PCL with boom lifts, defrosters and dehumidifiers, as well as more than 60 industrial heating units.



stler

Our rental fleet is at the heart of our competitive advantage. Its breadth, depth and age are all important considerations to our customers. Behind the scenes, it is the extent and integration of our resources that allow us to meet and exceed customer expectations time and again.

In addition to equipment rentals, our branches also offer new and used equipment for sale. We are a distributor for many of the industry’s leading manufacturers, including Genie®, JLG®, Mulitquip®, Wacker® and Honda USA®. Used rental equipment is principally sold by our sales force, which has access to many retail markets across North America. In 2005, our company launched United Rentals Certified Auctions on eBay® to establish a new online channel for used equipment sales. New and used equipment sales, like contractor supplies sales, safety training and our other services, encourage customer loyalty and provide cross-selling opportunities.

We have seen significant growth in our contractor supplies business. This initiative is financially and strategically important to our business plans: it drives incremental revenue and sets United Rentals apart as a one-stop shopping solution for our customers. Our revenues from contractor supplies sales grew from \$184 million in 2003, to \$225 million in 2004, to \$324 million in 2005. We market a wide



Opposite Page

Drawing on our national resources, United Rentals helped the Gulf Coast meet the challenges of a devastating hurricane season head on. We responded to calls for assistance from federal, state and local governments, private contractors and homeowners, providing hundreds of pieces of equipment and thousands of contractor supplies within 72 hours of Hurricane Katrina's landfall. Our employees helped set up communication channels and made equipment drops to staging areas such as the FEMA Village. Chris Miano (right), sales representative for United Rentals, worked side by side with customers such as Joseph Gioe, vice president of field operations for Broadmoore, to support the massive cleanup effort in New Orleans. "We had, and continue to have, an overwhelming job ahead of us," said Gioe. "Through all the exhaustion and uncertainty, United Rentals' equipment and people kept coming through."





orleans

range of construction consumables, tools, small equipment, and safety supplies through our sales force, branches and product catalogs. Our network of nine regional distribution centers, completed in 2005, gives us the ability to expedite customer orders for 9,200 in-stock items.

As our top line grew by more than 15% in 2005, our customer mix remained largely the same. We serve a highly diversified customer base that varies by branch and reflects several factors, including fleet mix, marketing focus and the local construction economy. Our customers include, among others, construction and industrial companies, manufacturers, municipalities and utilities. We rent to *Fortune 500* companies as well as to the small independent contractor and homeowner. In 2005, as in 2004, our largest customer accounted for less than 1% of revenues and our top 10 customers accounted for less than 2% of revenues.

National Accounts is a distinct component of our customer base, with a sales force dedicated to establishing and servicing these national and multi-regional relationships. We offer large customers a consistent level of service across North America, and a single point of contact through our National Accounts Service Center. We currently serve approximately 1,500 National Accounts customers as



The Cooper River Bridge project made history in 2005 when the 1,546-ft. structure connected Charleston and Mount Pleasant, S.C., with the longest cable-stay span in North America. United Rentals partnered with general contractor Palmetto Bridge Company (PBC) to help the huge towers take shape, providing pumps, welders, light towers, forklifts, water trucks, air compressors, contractor supplies, and dozens of aerial lifts, including the 120-ft. boom shown here. Warren Collier (left) and Dave Kampman (second from right), both senior superintendents with PBC, and Leuma Doctor (right), PBC deck hand, toured the site with Joey Bray and Kellie Copeland-Burnup, district sales manager and aerial sales representative, respectively, for United Rentals. “Safety is priority one with us,” said Collier. “Our crews typically work hundreds of feet in the air. We trust the quality of equipment from United Rentals — the condition, the maintenance, everything.”

charle

well as approximately 750 agencies of the U.S. government. Revenues from these customers increased to more than \$650 million in 2005, compared with approximately \$550 million in 2004.

To provide diverse solutions to thousands of customers each day, we rely on the talents of a strong and motivated branch management team. Our branch managers receive guidance in the form of performance benchmarks and attend monthly operating reviews. At the same time, managers are empowered, within budgetary guidelines, to make daily decisions at the branch. We believe that our managers are among the most knowledgeable and experienced in the industry. They are in the best position to help us strengthen our brand and service reputation.

To support our branch operations throughout North America, we have implemented a powerful technological framework that links our network and informs the decision-making of our branch managers. Each branch uses our RENTALMAN® information technology system to communicate with other branches and with our central data center. Rental transactions are processed on a real-time basis, so that an employee at one location can check the current and future availability of equipment at other locations in the area.

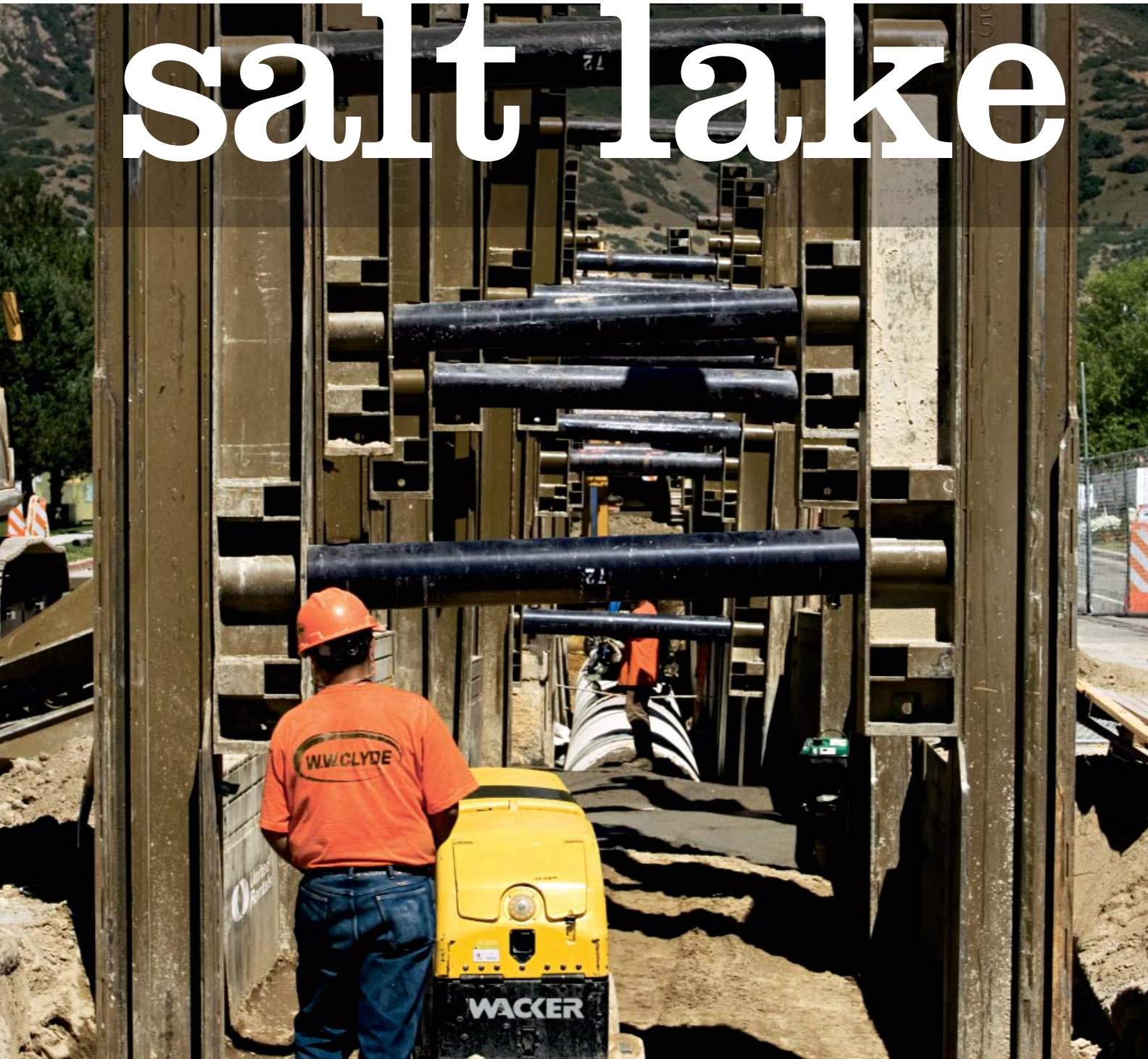


ston





salt lake



In early 2005, the \$64 million Point of the Mountain Aqueduct was little more than a trench carved out of the ground in Salt Lake City, Utah. By 2007, this massive pipeline will handle up to 77 million gallons of water a day. United Rentals' trench safety experts teamed with general contractor W.W. Clyde to keep the 12-mile project on schedule. Tim Badberg (right), branch manager for United Rentals, coordinated the installation of a custom-engineered slide rail shoring system that is one of the longest configurations of its kind ever used in North America. "United Rentals proved they have the expertise and resources necessary for a project of this scope," said Kim Buller (left), Group IV operator, for W.W. Clyde. "Their trench safety experts have been at our right hand from day one." Our branches also provided contractor supplies, confined space equipment and safety fencing for the project.



city

In addition, our **INFOMANAGER®** software extracts raw data from transactions and transforms it into meaningful information for management. These two systems illustrate the critical importance we place on timely information in our business. By providing branch management with local, district and regional intelligence, our managers are better able to serve customers and generate returns on the assets assigned to them.

Our information technology is a considerable advantage in an industry that is very competitive. We also insist that our employees understand the finer points of jobsite needs so that they can relate to customers at ground level. Our company draws a direct correlation between its commitment to customers and its commitment to employees. We want to attract and retain talented, energetic and experienced individuals who share our commitment to customer service. To support this, our culture emphasizes ongoing training and development at every level. In 2005 and 2004, our employees enhanced their skills in excess of 300,000 and 200,000 hours of training, respectively.

In 2005, we extended our commitment to employee development by executing a number of initiatives rooted in employee suggestions. Many of these ideas came from our company's ongoing Town Hall Meeting series. More than 450 meetings were



dlet

held throughout North America last year alone, giving over 8,000 employees the opportunity to address senior management face-to-face. Hundreds of suggestions were collected from truck drivers, salespeople, bookkeepers, mechanics, managers and safety officers, among others. By year-end, dozens of viable suggestions had become reality, including a new online eLearning curriculum.

These many initiatives serve to support our company's short-term and long-term objectives for growth. United Rentals has proven it is relatively resistant to downturns and responsive to periods of growth. Now, in an improving marketplace, we are focused on continuing to build value to customers and translating that value into financial returns. As demand for equipment increases, we expect that the utilization rates for our equipment will continue to increase as well. Customers will seek out a partner with the capabilities to meet a complete range of jobsite needs. Our company is positioned to capitalize on its strengths and to continue to outpace the relatively strong environment it operates in.

For further information on non-GAAP financial measures and forward looking statements in the Letter to Shareholders and this narrative, see "Financial Overview" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures about Market Risk" contained elsewhere in this report.

Opposite Page

Preparation for Super Bowl XL hit the ground running weeks before the big game in Detroit, where event-related needs ranged from material handling and transportation to temporary lighting and power. United Rentals demonstrated bench strength by delivering 15 light towers, 20 message boards, and over a dozen other pieces of equipment to Ford Field. Carolyn Lesley (left), vice president of operations for Noel Lesley Event Services, met with Bryce Mulligan (right), branch manager for United Rentals, to map out a game plan. “The Super Bowl showcases our country in front of the world’s eyes,” said Lesley. “United Rentals was completely comfortable with the pressure of staging an event of this magnitude. Everything worked like clockwork, from installation to dismantling.”



Contents

- 25 Selected Financial Data
- 26 Management's Discussion and Analysis of Financial Condition and Results of Operations
- 45 Report of Independent Auditors
- 46 Consolidated Balance Sheets
- 47 Consolidated Statements of Operations
- 48 Consolidated Statements of Cash Flows
- 50 Notes to Consolidated Financial Statements
- 76 United Rentals Rental Locations
- 78 Corporate Information



selected financial data

The following selected financial data reflects the results of operations and balance sheet data for the years ended 2002 to 2005. The data below should be read in conjunction with, and is qualified by reference to, MD&A and our consolidated financial statements and notes thereto. The financial information presented may not be indicative of our future performance.

The following selected consolidated financial data for 2003 and 2002 has been restated to reflect adjustments resulting from matters discussed in the MD&A and in note 3 to our consolidated financial statements (the "Restatement Note"). We have not restated our previously reported consolidated financial statements for the fiscal years ended December 31, 2001 and 2000, and we have not presented any financial data from those periods below. In light of the systems and records presently available to us, it is not possible for us to reconstruct detailed financial data for 2001 and prior periods with any amount of effort or expense due to the current state of historical records used to prepare the financial statements for such periods. The selected financial data for 2001 and 2000 would not have a material impact on a reader's understanding of the Company's financial results and condition as disclosed in this report. Previously published financial information for 2001 and earlier periods should not be relied upon. We encourage you to read MD&A and the Restatement Note for further discussion of the restatement adjustments.

	Year Ended December 31,			
	2005	2004	2003 (Restated)	2002 (Restated)
<i>(in millions, except per share data)</i>				
Income Statement Data:				
Total revenues	\$3,563	\$3,094	\$2,882	\$2,821
Total cost of revenues	2,398	2,135	2,100	1,945
Gross profit	1,165	959	782	876
Selling, general and administrative expenses	596	497	449	443
Goodwill impairment	—	139	297	248
Restructuring and asset impairment charge	—	(1)	—	28
Non-rental depreciation and amortization	69	67	72	61
Operating income (loss)	500	257	(36)	96
Interest expense	185	155	209	196
Interest expense — subordinated convertible debentures	14	14	—	—
Preferred dividends of a subsidiary trust	—	—	15	18
Other (income) expense, net ⁽¹⁾	(9)	176	43	(1)
Income (loss) before provision (benefit) for income taxes and cumulative effect of change in accounting principle	310	(88)	(303)	(117)
Provision (benefit) for income taxes	123	(4)	(49)	1
Income (loss) before cumulative effect of change in accounting principle	187	(84)	(254)	(118)
Cumulative effect of change in accounting principle, net ⁽²⁾	—	—	—	(288)
Net income (loss)	\$ 187	\$ (84)	\$ (254)	\$ (406)
Basic earnings (loss) available to common stockholders before cumulative effect of change in accounting principle per share	\$1.97	\$(1.07)	\$(3.29)	\$(1.08)
Diluted earnings (loss) available to common stockholders before cumulative effect of change in accounting principle per share	\$1.80	\$(1.07)	\$(3.29)	\$(1.08)
Basic earnings (loss) available to common stockholders per share	\$1.97	\$(1.07)	\$(3.29)	\$(4.88)
Diluted earnings (loss) available to common stockholders per share	\$1.80	\$(1.07)	\$(3.29)	\$(4.88)
Other Financial Data:				
Depreciation and amortization	454	445	403	385
Balance Sheet Data:				
Cash and cash equivalents	316	303	79	19
Rental equipment, net	2,252	2,123	2,062	1,835
Goodwill	1,328	1,293	1,412	1,681
Total assets	5,274	4,882	4,694	4,667
Debt	2,930	2,945	2,817	2,513
Subordinated convertible debentures ⁽³⁾	222	222	222	—
Company-obligated mandatorily redeemable convertible preferred securities of a subsidiary trust	—	—	—	227
Stockholders' equity	1,229	1,026	1,069	1,246

(1) Other (income) expense, net primarily includes interest income in 2005. The 2004 expense primarily relates to \$171 million of refinancing costs. The 2003 expense of \$43 million includes \$29 million of charges incurred in connection with the redemption of previously issued subordinated notes as well as an \$11 million write-off of notes receivable that were deemed impaired.

(2) The cumulative effect of change in accounting principle in 2002 resulted from a goodwill impairment charge recognized upon the adoption of a new accounting standard. See note 5 to our consolidated financial statements included elsewhere in this report.

(3) A subsidiary trust issued trust preferred securities in 1998 and we recorded such preferred securities as a separate category on our balance sheet. In 2003, the FASB issued FIN 46 and upon adoption of this standard as of December 31, 2003, we deconsolidated the trust. Upon deconsolidation, the trust preferred securities were removed from our consolidated balance sheets at December 31, 2003 and the subordinated convertible debentures that we issued to the subsidiary trust, which previously had been eliminated in our consolidated balance sheets, were no longer eliminated in our consolidated balance sheets at December 31, 2003. The carrying amount of the trust preferred securities removed from the consolidated balance sheets was the same as the carrying amount of the subordinated convertible debentures added to the consolidated balance sheets. However, the subordinated convertible debentures are reflected as a component of liabilities on the consolidated balance sheets at December 31, 2003, whereas the trust preferred securities were reflected as a separate category prior to December 31, 2003.

management's discussion and analysis of financial condition and results of operations

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

The following management discussion and analysis gives effect to the restatement discussed below and in the Restatement Note.

Executive Overview

We are the largest equipment rental company in the world with an integrated network of 751 rental locations in the United States, Canada and Mexico. Although the equipment rental industry is highly fragmented and diverse, we believe we are well positioned to take advantage of this environment because larger companies often have significant competitive advantages over smaller competitors. These advantages include greater purchasing power, the ability to provide customers with a broader range of equipment and services as well as with newer and better maintained equipment, and greater flexibility to transfer equipment among branches.

We offer for rent over 20,000 classes of rental equipment, including construction equipment, industrial and heavy machinery, aerial work platforms, traffic control equipment, trench safety equipment and homeowner items. Our revenues are derived from the following sources: equipment rentals, sales of rental (used) equipment, sales of new equipment, contractor supplies sales and service and other. Rental equipment revenues have historically accounted for more than 70 percent of our total revenues and we expect this trend to continue.

In August 2004, we received notice from the SEC that it was conducting a non-public, fact-finding inquiry of the Company. The SEC inquiry appears to relate to a broad range of the Company's accounting practices and is not confined to a specific period. In March 2005, our board of directors formed a Special Committee of independent directors to review matters related to the SEC inquiry. Our board of directors received and acted upon findings of the Special Committee in January 2006. The actions that we took with respect to the Special Committee's findings relating to the minor sale-leaseback transactions and the trade packages, as well as some other accounting matters, are discussed below. With respect to the accounting for purchase business combinations, the primary focus of the Special Committee's inquiry was our historical practices concerning the valuation of rental equipment acquired in purchase business combinations and the practice of recognizing profit on sales of this equipment within one year of its acquisition. These practices are further discussed below.

The SEC inquiry is ongoing and we are continuing to cooperate fully with the SEC.

Restatement and Reclassification of Previously Issued Consolidated Financial Statements, Certain Findings of the Special Committee and Related Matters

Subsequent to the filing of our Form 10-K for the year ended December 31, 2003, which included our consolidated financial statements for the years ended December 31, 2003 and 2002, it was determined that the Company's originally issued financial statements for those periods required restatement to correct the accounting for (i) the recognition of equipment rental revenue; (ii) irregularities identified by the Special Committee with respect to six short-term, or minor, equipment sale-leaseback transactions; (iii) self-insurance reserves; (iv) customer relationships; and (v) the provision for income taxes. In addition, we identified other matters for which we are not restating but for which we have determined additional disclosure would be useful.

Restatement of Financial Statements

The effects of the restatement adjustments on our originally reported results of operations for the years ended December 31, 2003 and 2002 and on our originally reported retained earnings at December 31, 2001, are summarized below.

	Net Loss Year Ended December 31,		Retained Earnings at December 31,
	2003	2002	2001
As originally reported	\$(259)	\$(398)	\$467
Adjustments for:			
Equipment rental revenues (a)	(2)	(3)	(17)
Sale-leaseback transactions (b)	20	2	(33)
Self-insurance reserves (c) ..	8	(13)	(41)
Customer relationships (d) ..	(2)	(1)	—
Pre-tax impact	24	(15)	(91)
Related tax effects	(9)	6	35
Adjustments, net of tax	15	(9)	(56)
Income taxes (e)	(10)	1	(9)
Total adjustments, net of tax ..	5	(8)	(65)
As restated	\$(254)	\$(406)	\$402

Below is a summary of the nature and amount of the adjustments reflected in the restatement (all amounts are presented on a pre-tax basis unless otherwise noted). As discussed above, in light of the systems and records presently available to us, it is not possible for us to reconstruct detailed financial data for 2001 and prior periods with any amount of effort or expense. Accordingly, we do not have the ability to restate, and we have not restated, our previously reported consolidated financial statements for the fiscal years ended December 31, 2001 and 2000. However, we have provided below the impact on originally reported pre-tax and/or net income for 2001 and 2000

of certain of the items for which we are restating, as information for these discrete items is available to us and we believe this information is useful.

(a) Recognition of equipment rental revenues. Our originally reported results reflected the recognition of equipment rental revenues based on the minimum amounts which became due and payable under the terms of our applicable rental contracts. We have determined that equipment rental revenues should be recognized on a straight-line basis and have restated our previously reported results to reflect this correction of an error. Our restatement had the impact of increasing/(decreasing) originally reported pre-tax income for 2001, 2000 and for periods prior to 2000 by \$6, \$4, and \$(27), respectively.

(b) Sale-leaseback transactions. In 2002, 2001, and 2000 we previously recognized gross profits of \$1, \$20 and \$12, respectively, in conjunction with six minor sale-leaseback transactions. It has been determined that the accounting for these transactions involved irregularities, and we are restating our financial statements to properly reflect the accounting for these six transactions. At the dates of the original minor sale-leaseback transactions, we recognized a premium (excess profit above fair value) on these transactions. In exchange for receiving this profit premium, we agreed to disburse cash in later periods as well as pay premiums for subsequent equipment purchases (“subsequent purchases”). Our restatement for the sale-leaseback transactions had the impact of increasing/(decreasing) originally reported pre-tax income for 2003, 2002, 2001 and 2000 by \$20, \$2, \$(21), and \$(12), respectively. These restatement adjustments reflect the elimination of the premium originally received in the minor sale-leaseback transactions as well as the deferral of any profit until all of our obligations associated with the originally received premiums were settled. Additionally, the adjustments reflect a reduction in previously recorded depreciation expense because this expense reflected capitalized equipment costs for subsequent purchases that were overstated.

(c) Self-insurance reserves. We self-insure for certain types of claims associated with our business, including (i) workers compensation claims and (ii) claims by third parties for injury or property damage caused by our equipment or personnel. These types of claims may take a substantial amount of time to resolve and, accordingly, the ultimate liability associated with a particular claim may not be known for an extended period of time. Our prior methodology for developing self-insurance reserves was based on management estimates of ultimate liability which were developed without obtaining actuarial valuations. In 2004, management adopted an estimation approach based on third party actuarial calculations that properly reflects and incorporates actuarial assumptions. Based on actuarial calculations performed by our third party actuaries in late 2004 and 2005, we concluded that the estimation process we previously used did not adequately take into account certain factors and that, as a result, a restatement was required. The factors that were not adequately addressed by our historical estimation process included future changes in the cost of known claims over time, cost inflation and incurred but not reported claims. Our restatement for the self-insurance reserves had the

impact of increasing/(decreasing) originally reported pre-tax income for 2003, 2002, 2001, 2000 and for periods prior to 2000 by \$8, \$(13), \$(11), \$(18) and \$(12), respectively.

(d) Customer relationships. In 2001, the FASB issued Statement of Financial Accounting Standards No. 141, “Business Combinations” (“SFAS No. 141”), which required the use of the purchase method of accounting for business combinations and prohibited the use of the pooling of interests method. SFAS No. 141 also changed the definition of intangible assets acquired in a purchase business combination, providing specific criteria for the initial recognition and measurement of intangible assets apart from goodwill. SFAS 141 applied to all business combinations accounted for using the purchase method for which the acquisition date is July 1, 2001 or later.

We have reviewed acquisitions we made since July 1, 2001 and have determined that a portion of the purchase price for these acquisitions previously allocated to goodwill should be recorded as a separate intangible asset—customer relationships. This restatement reflects the amortization expense associated with the reallocation of a portion of the purchase price from goodwill (which is not amortized) to customer relationships (which are amortized). This correction of an error had the impact of decreasing originally reported pre-tax income for 2003 and 2002 by \$2 and \$1, respectively.

(e) Income taxes. We have restated our income tax provision to (i) correctly reflect all book-to-tax temporary differences (primarily depreciation and non-deductible reserves and accruals); (ii) reflect appropriate tax benefits for net operating loss and alternative minimum tax credits; (iii) calculate deferred taxes at appropriate legal entity tax rates; and (iv) account for the settlement of an IRS audit examination. Our restatement for income taxes had the impact of increasing/(decreasing) originally reported net income for 2003, 2002, 2001, 2000 and for periods prior to 2000 by \$(10), \$1, \$ (3), \$ (2) and \$(4), respectively.

Buy-out of operating lease. In addition to the restatement matters discussed above, we have determined that \$88 of costs for the year ended December 31, 2003 previously classified below operating income should be reclassified to cost of equipment revenues and included in operating income. This amount primarily represents the amount in excess of the fair value related to the buy-out of equipment under operating leases. This reclassification, which has the effect of reducing gross profit and other expense (income), net by \$88, has no impact on originally reported net income or earnings per share for the year ended December 31, 2003.

Trade packages. During the period from the fourth quarter of 2000 through 2002, the Company sold used equipment to certain suppliers (referred to as “trade packages”). In certain of the trade packages, prices may have included a premium above fair value. In order to induce these suppliers to buy used equipment at premium prices, the Company made commitments or concessions to the suppliers. It has been determined that the accounting for those transactions involved irregularities and that the Company improperly recognized revenue from the transactions

involving the undisclosed inducements. However, because records were not created that would have permitted the linkage of the sales and inducements (as a result of instructions given by certain former employees of the Company), the Company is unable to determine the portion of the revenue and gross profit recognized in connection with trade packages with these suppliers between 2000 and 2002 that was improperly recognized. During this period, all sales of used equipment to these suppliers (which includes all trade package transactions) generated total revenues and gross profits of \$38 and \$9, respectively. Notwithstanding the lack of records relating to these transactions, the Company believes that its financial statements from and after 2002 are materially correct with respect to the effect of these transactions.

The Special Committee concluded that, based on the evidence it reviewed, the practices regarding certain trade packages and minor sale-leaseback transactions described above appear to have been directed by the Company's two former chief financial officers. Both of these individuals, who are no longer with the Company, declined to cooperate with the Special Committee's investigation. Based upon recommendations of the Special Committee, the Company's board of directors directed the Company, among other things, to evaluate potential claims relating to certain former company personnel, including these individuals and compensation and benefits previously received by them described elsewhere in this report.

Purchase Accounting. The Company was formed and began operations in 1997 with the acquisition of six equipment rental companies. During the subsequent three year period, we grew rapidly and completed approximately 230 additional acquisitions. By the end of 1999, we were the largest equipment rental company in the world, with annual revenues of approximately \$2.9 billion. With management's focus now turned toward organic growth, the pace of our acquisitions significantly slowed and from September 2001 through the date of this report we completed only eight acquisitions. Substantially all of the business combinations that we have completed since the inception of the Company were accounted for as purchases, however, there were several significant business combinations accounted for in the earlier period that were accounted for as poolings.

Accounting standards applicable to purchase business combinations require the acquiring company to recognize the assets acquired and the liabilities assumed based on their fair values at the time of acquisition. Any excess between the cost of an acquired company and the sum of the fair values of tangible and identifiable intangible assets less liabilities assumed should be recognized as goodwill.

In our historical accounting for these purchase business combinations, long-lived fixed assets (comprised primarily of rental equipment) and goodwill generally represented the largest components of our acquisitions. As a result, when we performed our purchase price allocation process, the purchase price was primarily allocated to these assets.

As discussed above, in March 2005, our Board of Directors formed a Special Committee of independent directors to review matters related to the SEC inquiry.

The Special Committee made certain findings related to the Company's historical practices concerning the valuation of rental equipment acquired in purchase business combinations. The committee concluded that certain of these practices were not adequate between 1997 and August 2000. These practices included, among other things, the use of inconsistent valuation methodologies, some of which were reflected in memoranda that were not provided to or reviewed by the Company's auditors, suggestions contained in those memoranda that improper methods of valuation be used (although the committee did not find evidence that such improper methods were generally applied), inadequate supervision of personnel, inadequate coordination with providers of outside valuations and apparent confusion on the part of one of those providers. The Special Committee concluded that certain Company personnel (whom the committee was unable to identify) may have sought to manipulate opening balance sheet values for equipment acquired in purchase business combinations by causing them to be understated and that these opening balance sheet values may have been understated by an amount the committee was unable to determine.

Following our review of our historical practices and the findings of the Special Committee, the Company considered whether the effect of the deficiencies identified by the committee required a restatement of previously reported results. These deficiencies in our historical practices between 1997 and August 2000 may have resulted in inaccurate values being ascribed to rental equipment that we acquired in purchase business combinations, including in some cases values that may have been below fair value. However, we do not have the ability to revalue this equipment because we are unable to currently determine its historical physical condition and the records that currently exist for this equipment are not sufficient to establish the physical condition of the equipment at the time of its acquisition.

The equipment valuations performed at the time of the acquisition, some of which included a physical inspection, reflected an assessment of the condition of the equipment. While, as the Special Committee identified, there were various deficiencies in our historical valuation practices, it is not possible to accurately revalue this equipment to assess the reasonableness of specific valuations. Therefore, we believe the only feasible approach is to give effect to the valuations that were performed contemporaneously with these acquisitions. Accordingly, we have determined that restatement is not appropriate. However, we have also determined that it would be useful to illustrate what our historical results would have been had these equipment values been higher.

The analysis below reflects the hypothetical impact on total gross profit (including gross profit on equipment rentals as well as sales of rental equipment) and net income (loss) for the years 2002 through 2005 had the rental equipment we acquired in purchase acquisitions during the period between 1997 and August 2000 been valued at an amount 10 percent and 20 percent higher than it was previously valued. The hypothetical impact on gross profit does not reflect costs and expenses that are considered operating expenses and are appropriately classified below gross profit.

Hypothetical impact of understatement of equipment values ⁽¹⁾⁽²⁾⁽³⁾

	As Reported ⁽⁴⁾	10 percent Hypothetical	20 percent Hypothetical
2002			
Total gross profit	\$ 876	\$ 870	\$ 864
Net loss	(406)	(410)	(413)
2003			
Total gross profit	\$ 782	\$ 779	\$ 777
Net loss	(254)	(256)	(257)
2004			
Total gross profit	\$ 959	\$ 957	\$ 956
Net loss	(84)	(85)	(86)
2005			
Total gross profit	\$1,165	\$1,164	\$1,163
Net income	187	186	186

(1) This analysis reflects the hypothetical revaluation of equipment acquired in connection with purchase business combinations of the type associated with our general rentals and trench safety, pump and power segments, which constituted approximately 85 percent of all acquisitions we completed during the subject period. We have not reflected in this chart the favorable impact of reduced goodwill impairment charges associated with a hypothetical reallocation of the purchase price between goodwill and rental asset values.

(2) In light of the systems and records presently available to us, it is not possible to perform this analysis for years prior to 2002. Because of our current inability to push-down certain reconciling items on our general ledger and sub-ledger to individual rental asset records, we cannot calculate the amounts ultimately attributed to rental assets in our historical purchase price allocation process. Accordingly, we do not have a reasonable basis for applying this sensitivity analysis to periods prior to 2002. However, we have performed an analysis of this prior period in the table below.

(3) This analysis reflects the revaluation of equipment to reflect our hypothetical total gross profit had the rental equipment we acquired during the relevant period been valued higher. To the extent the revaluation of the equipment converted a gain to a hypothetical loss, we limited the revaluation (increase in basis of the equipment) to an amount that would reduce the gain to zero. Similarly, to the extent that equipment was originally sold at a loss, the revaluation does not increase the basis of the related equipment.

(4) The As Reported results reflect the results included in this report, including restated results for 2003 and 2002.

Any potential impact on gross profit and net income (loss) had this rental equipment acquired between 1997 and August 2000 been valued 10 percent or 20 percent higher than it was previously valued would not have a material impact on our reported results of operations for 2002 through 2005. Accordingly, notwithstanding deficiencies in the Company's historical valuation process as it relates to purchase business combinations, the Company does not believe a restatement is required and believes that its financial statements from and after 2002 are materially correct with respect to the effect of equipment valuations.

In addition to the deficiencies identified by the Special Committee related to our historical practices described above, instances were identified where equipment acquired in purchase business combinations between 1997 and August 2000 was sold within a short time following the acquisition at gross margins that indicate the value initially ascribed to the equipment may have been too low. For the reasons described above, however, we are unable to assess the reasonableness of allocations of basis to specific acquired assets. Notwithstanding the impracticability associated with making this assessment, however, we believe it is useful to illustrate what our gross profit would have been for the period between 1998 and 2001 had our gross margin on sales of all rental equipment (including equipment acquired in connection with purchase acquisitions) been different. The analysis below reflects the hypothetical impact on previously reported gross margins and gross profits on sales of all rental equipment for the years 1998 through 2001 had these gross margins been 40 percent and 35 percent.

Hypothetical impact of reduced gross margins ⁽¹⁾

	Previously Reported	Reduced GM	Reduced GM
1998			
Gross margin	45%	40%	35%
Gross profit	\$ 54	\$48	\$ 42
1999			
Gross margin	42%	40%	35%
Gross profit	\$ 99	\$94	\$ 83
2000			
Gross margin	40%	40%	35%
Gross profit	\$140	n/a	\$122
2001			
Gross margin	40%	40%	35%
Gross profit	\$ 58	n/a	\$ 52

(1) We have not reflected in this chart the favorable impact of reduced goodwill impairment charges associated with a hypothetical reallocation of the purchase price between goodwill and rental asset values.

Any potentially overstated gross profit associated with these sales, the latest of which would have occurred in August 2001, would not have a material impact on our reported results of operations for 2002 through 2005. Accordingly, notwithstanding deficiencies in the Company's historical valuation process as it relates to purchase business combinations, the Company does not believe a restatement is required and believes that its financial statements from and after 2002 are materially correct with respect to the effect of equipment valuations.

Financial Overview

Free Cash Flow GAAP Reconciliation

We define “free cash flow” as (i) net cash provided by operating activities less (ii) purchases of rental equipment, purchases of other property and equipment and buy-outs of equipment leases plus (iii) proceeds from sales of rental equipment, proceeds from sales of rental locations and proceeds from sales-leaseback transactions. Management believes free cash flow provides useful additional information concerning cash flow available to meet future debt service obligations and working capital requirements. However, free cash flow is not a measure of financial performance or liquidity under Generally Accepted Accounting Principles (“GAAP”). Accordingly, free cash flow should not be considered an alternative to net income or cash flow from operating activities as indicators of operating performance or liquidity. The table below provides a reconciliation between net cash provided by operating activities and free cash flow.

	Full Year Ended December 31,		
	2005	2004	2003
Net cash provided by operating activities	\$ 643	\$ 737	\$ 306
Purchases of rental equipment	(741)	(592)	(379)
Purchases of property and equipment	(82)	(57)	(33)
Buy-outs of equipment leases ..	—	—	(304)
Proceeds from sales of rental equipment	307	275	233
Proceeds from sales of rental locations	3	—	—
Proceeds from sales-leaseback ..	—	23	—
Free Cash Flow	\$ 130	\$ 386	\$(177)

In 2005, we reported revenues and free cash flow of \$3.6 billion and \$130, respectively. Our 2005 revenue growth of 15.2 percent outpaced our primary end market, private non-residential construction, which grew 5.0 percent in 2005 according to Department of Commerce data. This revenue growth reflects increased rental rates of 6.0 percent and a 5.2 percentage point increase in dollar equipment utilization to 65.1 percent. (Dollar equipment utilization is calculated with consideration to our equipment rental revenue and the average original cost of equipment in our rental fleet.) In 2004, we reported revenues and free cash flow of \$3.1 billion and \$386, respectively. Our 2004 revenue growth of 7.4 percent outpaced our primary end market, private non-residential construction, which grew 4.2 percent in 2004 according to Department of Commerce data. This growth reflects increased rental rates of 7.5 percent and a 2.8 percentage point increase in dollar equipment utilization to 59.9 percent.

We significantly improved our profitability in 2005 as compared to 2004. Our increased profitability was driven by a 6.0 percent growth in rental rates and a 44.0 percent increase in contractor supplies sales. The improved profitability also reflects a \$122 reduction in goodwill impairment charges and a \$101 reduction in refinancing charges. In addition to improving our profitability, we reported free cash flow of \$130 in 2005, after investing approximately \$839 in capital expenditures. Our rental fleet had an

original equipment cost of \$3.9 billion at December 31, 2005, as compared to \$3.7 billion at December 31, 2004. We ended 2005 with a cash balance of approximately \$316.

In 2004, we substantially reduced our net loss from 2003. This was accomplished through a 7.5 percent growth in rental rates, a 22.3 percent increase in contractor supplies sales, a 25.8 percent reduction in interest expense and the expansion of our rental fleet. The reduced net loss also reflects a \$117 reduction in goodwill impairment charges, partially offset by increased refinancing costs of approximately \$84. Our rental fleet had an original equipment cost of \$3.7 billion at December 31, 2004 as compared to \$3.5 billion at December 31, 2003. Additionally, we reported free cash flow of \$386 in 2004, after investing \$649 in capital expenditures. In 2004, we also refinanced approximately \$2.1 billion of debt. This refinancing extended our debt maturities, reduced interest expense and provided the company with greater financial flexibility. As a result of our significantly improved operations and refinancing activity, we ended 2004 with a cash balance of \$303.

In 2003, despite a weak non-residential construction market, we substantially reduced our net loss and increased our revenues 2.2 percent to \$2.9 billion. The reduced net loss reflected increased rental rates of 2.0 percent. Additionally, the reduced net loss reflected the absence of a \$288 charge associated with a cumulative effect of change in accounting principle as well as a \$17 restructuring charge, partially offset by a \$58 charge for the buy-out of equipment leases and a \$17 charge for refinancing costs. In 2003, we generated \$306 in cash flow from operations and our free cash flow was \$(177).

We are committed to capitalizing on future growth opportunities. Our goal is to grow revenues by approximately 11 percent to approximately \$4.0 billion in 2006. We are on track to achieve this objective and expect organic growth, prudent acquisitions and the expansion of complementary revenue streams such as contractor supplies to contribute to our growth.

Revenues for each of the four years in the period ended December 31, 2005 were as follows:

	Year Ended December 31,			
	2005	2004	2003	2002
			(Restated)	(Restated)
Equipment rentals	\$2,583	\$2,289	\$2,176	\$2,152
Sales of rental equipment	307	275	233	223
Sales of new equipment	208	178	170	170
Contractor supplies sales	324	225	184	160
Service and other	141	127	119	116
Total revenues	\$3,563	\$3,094	\$2,882	\$2,821

	Percent Change		
	2005	2004	2003
Equipment rentals	12.8	5.2	1.1
Sales of rental equipment	11.6	18.0	4.5
Sales of new equipment	16.9	4.7	—
Contractor supplies sales	44.0	22.3	15.0
Service and other	11.0	6.7	2.6
Total revenues	15.2	7.4	2.2

Equipment rentals include our revenues from renting equipment, as well as related revenues such as the fees we charge for equipment delivery, fuel, repair of rental equipment and damage waivers. Sales of rental equipment include our revenues from the sale of used rental equipment. Contractor supplies sales include our sales of supplies utilized by contractors, which include construction consumables, tools, small equipment and safety supplies. Services and other includes our repair services (including parts sales) as well as the operations of our subsidiaries that develop and market software for use by equipment rental companies in managing and operating multiple branch locations.

2005 total revenues of \$3.6 billion increased 15.2 percent compared with total revenues of \$3.1 billion in 2004. The increase primarily results from a 12.8 percent increase in equipment rentals and a 44.0 percent increase in contractor supplies sales. The increase in equipment rentals reflects a 6.0 percent increase in rental rates and a 5.2 percentage point increase in dollar equipment utilization. The increase in contractor supplies sales reflects increased volume as we expanded our product offering. Equipment rentals represented approximately 72 percent and 74 percent of our revenues in 2005 and 2004, respectively.

2004 total revenues of \$3.1 billion increased 7.4 percent compared with total revenues of \$2.9 billion in 2003. The increase resulted primarily from a 5.2 percent increase in equipment rentals, an 18.0 percent increase in sales of rental equipment and a 22.3 percent increase in contractor supply sales. The increase in equipment rentals reflects a 7.5 percent increase in rental rates and a 2.8 percentage point increase in dollar equipment utilization. The increase in contractor supplies sales reflects increased sales volume. The increase in sales of rental equipment reflects increased volume. Equipment rentals represented approximately 74 percent and 76 percent of our revenues in 2004 and 2003, respectively. 2003 total revenues of \$2.9 billion increased 2.2 percent compared with total revenues of \$2.8 billion in 2002. The increase primarily relates to increased equipment rental revenues and increased contractor supplies sales. Equipment rentals represented approximately 76 percent of our revenues in 2003 and 2002.

Net income (loss) for each of the four years in the period ended December 31, 2005 was as follows:

	Year Ended December 31,			
	2005	2004	2003 (Restated)	2002 (Restated)
Net income (loss)	\$187	\$(84)	\$(254)	\$(406)

2005 net income was \$187 or \$1.80 per diluted share.

2004 net loss of \$84, or \$1.07 per diluted share, included an after-tax charge of \$122 (\$139 pre-tax), or \$1.57 per diluted share, relating to goodwill impairment and an after-tax charge of \$101 (\$171 pre-tax), or \$1.30 per diluted share, related to refinancing costs.

2003 net loss of \$254, or \$3.29 per diluted share, included an after-tax charge of \$239 (\$297 pre-tax), or \$3.10 per diluted share, relating to goodwill impairment, an after-tax charge of \$58 (\$95 pre-tax), or \$0.75 per diluted share, relating to the buy-out of equipment leases, and an after-tax charge of \$17 million (\$29 pre-tax), or \$0.22 per diluted share, related to refinancing costs.

2002 net loss of \$406, or \$4.88 per diluted share, included an after-tax charge of \$288 as a cumulative effect of change in accounting principle, an after-tax charge of \$199 (\$248 pre-tax), or \$2.62 per diluted share, relating to goodwill impairment, and an after-tax charge of \$17 (\$28 pre-tax), or \$0.23 per diluted share, relating to a restructuring charge.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with U.S generally accepted accounting principles. A summary of our significant accounting policies is contained in note 2 to our consolidated financial statements. In applying many accounting principles, we make assumptions, estimates and/or judgments. These assumptions, estimates and judgments are often subjective and may change based on changing circumstances or changes in our analysis. Material changes in these assumptions, estimates and judgments have the potential to materially alter our results of operations. We have identified below our accounting policies that we believe could potentially produce materially different results were we to change underlying assumptions, estimates and judgments. Although actual results may differ from those estimates, we believe the estimates are reasonable and appropriate.

Revenue Recognition

We recognize equipment rental revenue on a straight-line basis. Our rental contract periods are daily, weekly or monthly. By way of example, if a customer were to rent a piece of equipment and the daily, weekly and monthly rental rates for that particular piece were (in actual dollars) \$100, \$300 and \$900, respectively, we would recognize revenue of \$32.14 per day. The daily rate is calculated by dividing the monthly rate of \$900 by 28 days, the monthly term. As part of this straight-line methodology, when the equipment is returned, we recognize as incremental revenue the excess, if any, between the amount the customer is contractually required to pay over the cumulative amount of revenue recognized to date.

Revenues from the sale of rental equipment and new equipment are recognized at the time of delivery to, or pick-up by, the customer and when collectibility is reasonably assured. Sales of contractor supplies are also recognized at the time of delivery to, or pick-up by, the customer. For construction-related contracts in our traffic control segment which comprise approximately 8 percent of our total revenues, revenues are recognized based on the percentage of work completed. Use of the percentage-of-completion method requires management to make estimates of the expected total revenues, total costs and the extent of progress toward completion.

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts. These allowances reflect our estimate of the amount of our receivables that we will be unable to collect. We base our estimate on a combination of an analysis of our accounts receivable on a specific accounts basis and historical write-off experience. Our estimate could require change based on changing circumstances, including changes in the economy or in the particular circumstances of individual customers. Accordingly, we may be required to increase or decrease our allowance.

Useful Lives of Rental Equipment and Property and Equipment

We depreciate rental equipment and property and equipment over their estimated useful lives, after giving effect to an estimated salvage value which ranges from 0 percent to 10 percent of cost. The useful life of an asset is determined based on our estimate of the period the asset will generate revenues, and the salvage value is determined based on our estimate of the minimum value we will realize from the asset after such period. We may be required to change these estimates based on changes in our industry or other changing circumstances. If these estimates change in the future, we may be required to recognize increased or decreased depreciation expense for these assets.

Purchase Price Allocation

We have made a significant number of acquisitions in the past and expect that we will continue to make acquisitions in the future. We allocate the cost of the acquired enterprise to the assets acquired and liabilities assumed based on their respective fair values at the date of acquisition. With the exception of goodwill, long-lived fixed assets generally represent the largest component of our acquisitions. The long-lived fixed assets that we acquire are primarily rental equipment, transportation equipment and real estate. With limited exceptions, virtually all of the rental equipment that we have acquired through purchase business combinations has been classified as "To be Used," rather than as "To be Sold." Equipment that we acquire and classify as "To be Used" is recorded at fair value, as determined by replacement cost to the Company of such equipment. We use third party valuation experts to help calculate replacement cost.

In addition to long-lived fixed assets, we also acquire other assets and assume liabilities. These other assets and liabilities typically include, but are not limited to, parts inventory, accounts receivable, accounts payable and other working capital items. Because of their short-term nature, the fair values of these other assets and liabilities generally approximate the book values reflected on the acquired entities balance sheets. However, when appropriate, we adjust these book values for factors such as collectibility and existence. The intangible assets that we have acquired are primarily goodwill, customer-related intangibles (specifically customer relationships) and covenants not-to-compete. Goodwill is calculated as the excess of the cost of the acquired entity over the net of the amounts assigned to the assets acquired and the

liabilities assumed. Customer relationships have been valued based on an excess earnings or income approach with consideration to projected cash flows. When specifically negotiated by the parties in the applicable purchase agreements, we have valued non-compete agreements based on the amounts assigned to them in the purchase agreements as these amounts represent the amounts negotiated in an arm's length transaction. When not negotiated by the parties in the applicable purchase agreements, we estimated the fair value of non-compete agreements based on a percentage of the acquisition's goodwill.

Impairment of Goodwill

We have made acquisitions in the past that included the recognition of a significant amount of goodwill. Commencing January 1, 2002, goodwill is no longer amortized, but instead is reviewed for impairment annually or more frequently as events occur that indicate a decline in fair value below its carrying value. In general, this means that we must determine whether the fair value of the goodwill, calculated in accordance with applicable accounting standards, is at least equal to the recorded value on our balance sheet. If the fair value of the goodwill is less than the recorded value, we are required to write-off the excess goodwill as an operating expense.

Prior to January 1, 2004, we tested for goodwill impairment on a branch-by-branch basis. Accordingly, a goodwill write-off was required even if only one or a limited number of our branches had an impairment as of the testing date and even if there was no impairment for all our branches on an aggregate basis.

Commencing January 1, 2004, we began testing for goodwill impairment at a regional, rather than a branch level. We began testing for impairment at this level because accounting standards require that goodwill impairment testing be performed at the reporting unit level. In 2004, following a reorganization of our reporting structure, our regions became our reporting units. This change in reporting units may impact future goodwill impairment analyses because there are substantially fewer regions (nine) than there are branches (in excess of 700).

Impairment of Long-Lived Assets

We review the valuation of our long-lived assets on an ongoing basis and assess the carrying value of such assets if facts and circumstances suggest they may be impaired. If this review indicates that the carrying value of these assets may not be recoverable, then the carrying value is reduced to its estimated fair value. The determination of recoverability is based upon an undiscounted cash flow analysis over the asset's remaining useful life. We must make estimates and assumptions when applying the undiscounted cash flow analysis. These estimates and assumptions may prove to be inaccurate due to factors such as changes in economic conditions, changes in our business prospects or other changing circumstances. If these estimates change in the future, we may be required to recognize write-downs on our long-lived assets.

Income Taxes

We recognize deferred tax assets in accordance with applicable accounting standards and we record deferred tax assets based on current enacted tax rates and laws. The future realization of the deferred tax benefits and carryforwards are determined by considering historical profitability, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. We generally evaluate projected taxable income for a five-year period to determine the recoverability of all deferred tax assets and, in addition, examine the length of the carryforward to ensure that the deferred tax assets are established at an amount that is more likely than not to be realized. We have not provided a valuation allowance related to our federal deferred tax assets because we believe such assets will be recovered during the carryforward period. If sufficient evidence becomes apparent that it is more likely than not that our deferred tax assets will not be utilized, we would be required to record a valuation allowance for such assets, which would result in additional income tax expense. We have provided a valuation allowance related to certain state operating loss carryforwards.

We are subject to ongoing tax examinations and assessments in various jurisdictions. Accordingly, we may incur additional tax expense based on the probable outcomes of such matters. In addition, when applicable, we adjust the previously recorded tax expense to reflect examination results. Our ongoing assessments of the probable outcomes of the examinations and related tax positions require judgment and could increase or decrease our effective tax rate as well as impact our operating results.

Reserves for Claims

We are exposed to various claims relating to our business, including those for which we provide self-insurance. Claims for which we self-insure include (i) workers compensation claims and (ii) claims by third parties for injury or property damage caused by our equipment or personnel. These types of claims may take a substantial amount of time to resolve and, accordingly, the ultimate liability associated with a particular claim may not be known for an extended period of time. Our methodology for developing self-insurance reserves is based on management estimates which incorporate actuarial valuations that are periodically prepared by our third party actuaries. Our estimation process considers, among other matters, the cost of known claims over time, cost inflation and incurred but not reported claims. These estimates may change based on, among other things, changes in our claims history or receipt of additional information relevant to assessing the claims. Further, these estimates may prove to be inaccurate due to factors such as adverse judicial determinations or settlements at higher than estimated amounts. Accordingly, we may be required to increase or decrease our reserve levels.

Legal Contingencies

We are involved in a variety of claims, lawsuits, investigations and proceedings, as described in “Item 3—Legal Proceedings” and elsewhere in this report. We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing our litigation and regulatory matters using available information. We develop our views on estimated losses in consultation with outside counsel handling our defense in these matters, which involves an analysis of potential results, assuming a combination of litigation and settlement strategies. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations in the period or periods in which such change in determination, judgment or settlement occurs.

Results of Operations

As discussed in note 19 to the consolidated financial statements, our current reportable segments are general rentals, traffic control and trench safety, pump and power. Prior to 2004, we had one reportable segment: general rentals. In the first quarter of 2004, we began reporting information for two reporting segments: general rentals and traffic control. In 2005, we began reporting for an additional segment, trench safety, pump and power.

The general rentals segment includes the rental of construction, aerial, industrial and homeowner equipment and related services and activities. The general rentals segment's customers include construction and industrial companies, manufacturers, utilities, municipalities and homeowners. The general rentals segment operates throughout the United States and Canada and has one location in Mexico. The traffic control segment includes the rental of equipment used in the management of traffic-related services and activities. The traffic control segment's customers include construction companies involved in infrastructure projects and municipalities. The traffic control segment operates in the United States. The trench safety, pump and power segment includes the rental of specialty construction products and related services. The trench safety, pump and power segment's customers include construction companies involved in infrastructure projects, municipalities and industrial companies. This segment operates in the United States and has one location in Canada.

These segments align the Company's external segment reporting to how management evaluates and allocates resources. The Company evaluates segment performance based on segment operating results.

We completed acquisitions in each of 2002, 2003, 2004 and 2005 which are discussed further in note 4

to the consolidated financial statements. In view of the fact that our operating results for these years were affected by acquisitions, we believe that our results for these periods are not directly comparable, although there is no material impact from these acquisitions.

Revenues by segment for each of the four years in the period ended December 31, 2005 were as follows:

	General rentals	Trench safety, pump and power	Traffic control	Total
2005				
Equipment rentals	\$2,203	\$140	\$240	\$2,583
Sales of rental equipment	291	13	3	307
Sales of new equipment	191	14	3	208
Contractor supplies sales	291	10	23	324
Service and other	137	3	1	141
Total revenue	\$3,113	\$180	\$270	\$3,563
2004				
Equipment rentals	\$1,961	\$101	\$227	\$2,289
Sales of rental equipment	259	13	3	275
Sales of new equipment	170	7	1	178
Contractor supplies sales	196	6	23	225
Service and other	123	3	1	127
Total revenue	\$2,709	\$130	\$255	\$3,094
2003				
Equipment rentals	\$1,792	\$ 85	\$299	\$2,176
Sales of rental equipment	222	11	—	233
Sales of new equipment	161	6	3	170
Contractor supplies sales	152	4	28	184
Service and other	116	3	—	119
Total revenue	\$2,443	\$109	\$330	\$2,882
2002				
Equipment rentals	\$1,761	\$ 71	\$320	\$2,152
Sales of rental equipment	215	7	1	223
Sales of new equipment	163	4	3	170
Contractor supplies sales	122	3	35	160
Service and other	114	2	—	116
Total revenue	\$2,375	\$ 87	\$359	\$2,821

Equipment rentals. Equipment rentals represent our revenues from renting equipment.

2005 equipment rentals of \$2,583 increased \$294, or 12.8 percent, reflecting a 6.0 percent increase in rental rates and a 5.2 percentage point increase in our dollar equipment utilization. Equipment rentals represented approximately 72 percent of total revenues in 2005. On a segment basis, equipment rentals represented approximately 71 percent, 78 percent and 89 percent of total revenues for general rentals, trench safety, pump and power and traffic control, respectively. General rentals equipment rentals increased \$242 or 12.3 percent reflecting increased rental rates and a 10.6 percent increase in same-store rental revenues. Trench safety, pump and power equipment rentals increased \$39, or 38.6 percent, reflecting a 22.8 percent increase in same-store rental revenues. Traffic control equipment rentals increased \$13, or 5.7 percent, reflecting a 19.2 percent increase in same-store rental revenues, partially offset by reduced revenues associated with closed locations.

2004 equipment rentals of \$2,289 increased \$113, or 5.2 percent, reflecting a 7.5 percent increase in rental rates and a 2.8 percentage point increase in dollar

equipment utilization, partially offset by reduced volume. Equipment rentals represented approximately 74 percent of total revenues in 2004. On a segment basis, equipment rentals represented approximately 72 percent, 78 percent and 89 percent of total revenues for general rentals, trench safety, pump and power and traffic control, respectively. General rentals equipment rentals increased \$169, or 9.4 percent, reflecting increased rental rates and a 10.9 percent increase in same-store rental revenues. Trench safety, pump and power equipment rentals increased \$16, or 18.8 percent, reflecting a 14 percent increase in same-store rental revenues. Traffic control equipment rentals decreased \$72, or 24.1 percent, reflecting a reduction in the volume of rentals due to continued weakness in state spending for infrastructure projects.

2003 equipment rentals of \$2,176 increased \$24, or 1.1 percent, reflecting a 2.0 percent increase in rental rates. Equipment rentals represented approximately 76 percent of total revenues in 2003. On a segment basis, equipment rentals represented approximately 73 percent, 78 percent and 91 percent of total revenues for general rentals, trench safety, pump and power and traffic control, respectively. General rentals equipment rentals increased \$31, or 1.8 percent.

Trench safety, pump and power equipment rentals increased \$14. Traffic control equipment rentals decreased \$21, or 6.6 percent, reflecting a reduction in the volume of rentals due to continued weakness in state spending for infrastructure projects.

Sales of rental equipment. For each of the four years in the period ended December 31, 2005, sales of rental equipment have represented between 7 and 9 percent of our total revenues and our general rentals segment accounted for approximately 95 percent of these sales. Sales of rental equipment for traffic control and trench safety, pump and power have been insignificant.

2005 sales of rental equipment of \$307 increased \$32 or 11.6 percent as compared to 2004. The 11.6 percent increase as compared to 2004 reflected an increase in the volume of equipment sold. 2004 sales of rental equipment of \$275 increased \$42 or 18.0 percent as compared to 2003. This increase reflected an increase in the volume of equipment sold. 2003 sales of rental equipment of \$233 increased \$10 or 4.5 percent as compared to 2002. This increase as compared to 2002 reflected an increase in the volume of equipment sold, as used equipment prices remained relatively flat.

Sales of new equipment. For each of the four years in the period ended December 31, 2005, sales of new equipment represented approximately 6 percent of our total revenues. Our general rentals segment accounted for approximately 95 percent of these sales. Sales of new equipment for traffic control and trench safety, pump and power have been insignificant.

2005 sales of new equipment of \$208 increased \$30 or 16.9 percent as compared to 2004. The 16.9 percent increase as compared to 2004 reflected an increase in the number of units sold. 2004 sales of new equipment of \$178 increased \$8 or 4.7 percent as compared to 2003. The 4.7 percent increase as

compared to 2003 reflected an increase in the volume of equipment sold. 2003 sales of new equipment of \$170 was unchanged from 2002.

Sales of contractor supplies. Sales of contractor supplies represent our revenues associate with selling a variety of contractor supplies including construction consumables, tools, small equipment and safety supplies. Contractor supplies sales have increased from \$160, or 5.7 percent of our total revenues, in 2002 to \$324, or 9.1 percent of our total revenues, in 2005. Consistent with sales of rental and used equipment, general rentals accounts for substantially all of our contractor supplies sales. Between 2003 and 2005, general rentals accounted for approximately 85 percent of total sales of contractor supplies.

2005 sales of contractor supplies of \$324 increased \$99 or 44.0 percent as compared to 2004. The 44.0 percent increase as compared to 2004 reflected an increase in the volume of supplies sold. 2004 sales of contractor supplies of \$225 increased \$41 or 22.3 percent as compared to 2003. The 22.3 percent increase as compared to 2003 reflected an increase in the volume of supplies sold. 2003 sales of contractor supplies of \$184 increased \$24 or 15.0 percent as compared to 2002. The 15.0 percent increase as compared to 2002 reflected an increase in the volume of supplies sold.

Service and other. Service and other represent our revenues earned from providing services (including parts sales). Consistent with sales of rental and new equipment as well as sales of contractor supplies, general rentals accounts for substantially all of our service and other revenue. Between 2002 and 2005, general rentals accounted for approximately 97 percent of total service and other revenue. Service and other revenue increased 2.8 percent, 6.7 percent and 11.0 percent in 2003, 2004 and 2005, respectively.

Segment Operating Profit

Segment operating profit and operating margin for each of the four years in the period ended December 31, 2005 were as follows:

	General rentals	Trench safety, pump and power	Traffic control	Total
2005				
Operating Profit/(Loss)	\$472	\$48	\$(20)	\$500
Operating Margin	15.2%	26.7%	(7.4)%	14.0%
2004				
Operating Profit/(Loss)	\$416	\$31	\$(52)	\$395
Operating Margin	15.4%	23.8%	(20.4)%	12.8%
2003				
Operating Profit	\$234	\$23	\$ 4	\$261
Operating Margin	9.6%	21.1%	1.2%	9.1%
2002				
Operating Profit	\$338	\$22	\$ 12	\$372
Operating Margin	14.2%	25.3%	3.3%	13.2%

The following is a reconciliation of segment profit to total company operating income (loss):

	2005	2004	2003	2002
Total segment profit	\$500	\$ 395	\$ 261	\$ 372
Unallocated items:				
Goodwill impairment charges	—	(139)	(297)	(248)
Restructuring and asset impairment charges	—	1	—	(28)
Operating income (loss)	\$500	\$ 257	\$ (36)	\$ 96

General rentals. For each of the four years in the period ended December 31, 2005, general rentals accounted for at least 90 percent of the total operating profit. This contribution percentage is consistent with general rentals' revenue contribution over the same period, which has ranged from approximately 85 to 90 percent.

General rentals operating margin in 2005 decreased 0.2 percentage points from 2004. The reduction in operating margin reflects an increase in selling, general & administrative expenses. Operating margin in 2004 increased 5.8 percentage points from 2003. The improvement in operating margin reflects a 7.5 percent increase in rental rates. Operating margin in 2003 decreased 4.6 percentage points from 2002. The reduction in operating margin reflects the incurrence of \$88 of costs associated with the buy-out of equipment leases as well as rental costs outpacing revenue growth, particularly in repairs and maintenance and delivery.

Trench safety, pump and power. Trench safety, pump and power operating profit increased \$17 in 2005 reflecting a \$50 increase in revenues. Operating profit in 2004 increased \$8 reflecting the gross margin associated with the \$21 increase in revenues. Operating profits in 2003 were essentially unchanged from 2002.

Traffic control. Traffic control operating loss decreased \$32 in 2005. This improvement reflects a 6 percent increase in traffic control equipment rental revenues as well as cost reductions. Operating loss in 2004 increased \$56 primarily reflecting the gross margin associated with the \$72, or 24.1 percent, reduction in traffic control equipment rental revenues. Operating profit in 2003 decreased \$8 primarily reflecting the gross margin associated with the \$21, or 6.6 percent, reduction in traffic control equipment rental revenues.

Gross Margin

We have historically realized higher gross margins on sales of rental equipment than on sales of new equipment. This is consistent with the marketplace in general and not peculiar to United Rentals. Gross margins by revenue classification were as follows:

	Year Ended December 31,			
	2005	2004	2003	2002
Total gross margin	32.7	31.0	27.2	31.0
Equipment rentals	34.8	31.7	26.2	31.6
Sales of rental equipment	26.7	28.3	36.9	33.2
Sales of new equipment	18.3	17.4	13.5	14.7
Contractor supplies sales	23.8	27.3	27.2	27.4
Service and other	49.7	49.2	45.0	45.8

2005 gross margin of 32.7 percent increased 1.7 percentage points from 2004. The improved margin performance was primarily a result of a 3.1 percentage point increase in equipment rentals gross margin, partially offset by a 3.5 percentage point reduction in gross margins on contractor supplies sales. The improved equipment rental margin reflected a 6.0 percent increase in rental rates as well as a 5.2 percentage point improvement in dollar equipment utilization. The reduction in contractor supplies sales gross margin reflects costs incurred to open distribution centers in the United States and Canada. The reduction in gross margins on sales of rental equipment, as well as the increased margin realized in sales of new equipment, reflect a change in the mix of equipment sold.

2004 gross margin of 31.0 percent increased 3.8 percentage points from 2003. The improved margin performance was primarily a result of a 5.5 percentage point increase in equipment rentals gross margin, partially offset by an 8.6 percentage point reduction in gross margins on sales of rental equipment. The improved equipment rental margin reflected a 7.5 percent increase in rental rates as well as a 2.8 percentage point improvement in dollar equipment utilization. The reduction in gross margins on sales of rental equipment, as well as the increased margin realized on sales of new equipment, reflect a change in the mix of equipment sold.

2003 gross margin of 27.2 percent decreased 3.8 percent from 2002. This reduction primarily reflects a 5.4 percentage point reduction in equipment rentals gross margin. The reduction in equipment rentals gross margin reflects the incurrence of \$88 of costs associated with the buy-out of equipment leases. Excluding this charge, equipment rental gross margins would have approximated 30.2 percent, reflecting reduced equipment rentals in traffic control as well as cost increases associated with higher costs for insurance and claims, fleet repair and maintenance and fuel and delivery.

Selling, general and administrative expenses (SG&A)

SG&A expense information for each of the four years in the period ended December 31, 2005 was as follows:

	Year Ended December 31,			
	2005	2004	2003	2002
Total SG&A expenses	\$596	\$497	\$449	\$443
SG&A as a percentage of revenue	16.7	16.1	15.6	15.7

SG&A expense primarily includes sales force compensation, bad debt expense, advertising and marketing expenses, third party professional fees, management salaries and clerical and administrative overhead.

2005 SG&A expense of \$596 increased 20.0 percent as compared to 2004 and represented 16.7 percent of revenue as compared to 16.1 percent in 2004. This increase reflects increased commissions associated with revenue growth as well as an increase in the number of sales people. In addition to these higher selling costs related to growth in the business, the year-over-year growth in SG&A expense reflects normal inflationary increases as well as increased professional costs related to regulatory issues and related matters of \$28.

2004 SG&A expense of \$497 increased 10.7 percent as compared to 2003 and represented 16.1 percent of revenue as compared to 15.6 percent in 2003. 2004 SG&A expense included charges of \$7 associated with the vesting of restricted stock granted to executives in 2001. As a percentage of revenue, SG&A expense has been consistent for each of the three years in the period ended December 31, 2004.

2003 SG&A expense of \$449 increased 1.4 percent as compared to 2002 and represented 15.6 percent of revenue as compared to 15.7 percent in 2002. The increase in 2003 as compared to 2002 was primarily attributable to the accelerated vesting of restricted shares granted in 2001. This charge was \$12 in 2003 and there was no corresponding charge in 2002.

Goodwill impairment charge

Pursuant to an accounting standard adopted in 2002, we no longer amortize goodwill. Instead, we are required to periodically review our goodwill for impairment. In general, this means that we must determine whether the fair value of the goodwill, calculated in accordance with applicable accounting standards, is at least equal to the recorded value shown on our balance sheet. If the fair value of the goodwill is less than the recorded value, we are required to write off the excess goodwill as an expense.

We are required to review our goodwill for impairment annually as of a scheduled review date; however, if events or circumstances suggest that our goodwill could be impaired, we may be required to conduct an earlier review. Our scheduled review date is October 1 of each year; however, we reviewed our traffic control segment goodwill as of September 30, 2004 because continued weakness in this segment suggested that the goodwill associated with this segment could be impaired.

In the fourth quarter of 2003, we recorded a goodwill impairment charge of \$297. Additionally, in the third quarter of 2004, we recorded a goodwill impairment charge of \$139 to write off the remaining goodwill associated with our traffic control segment. The charge in the fourth quarter of 2003 reflected weakness in the financial performance of certain of our branches. The charge in the third quarter of 2004 reflected the unfavorable financial performance of our traffic control operations.

Restructuring and asset impairment charge

The restructuring and asset impairment charge of \$(1) in 2004 relates to the reversal of excess restructuring reserves established in prior years of \$5, partially offset by asset impairment charges of \$4 related to our traffic control segment.

Non-rental depreciation and amortization for each of the four years in the period ended December 31, 2005 was as follows:

	Year Ended December 31,			
	2005	2004	2003	2002
Non-rental depreciation and amortization	\$69	\$67	\$72	\$61

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 other intangible assets. Our other intangible assets consist of non-compete agreements as well as customer-related intangible assets. The amount of non-rental depreciation and amortization has approximated 2 percent of revenues for each of the four years in the period ended December 31, 2005.

Interest expense for each of the four years in the period ended December 31, 2005 was as follows:

	Year Ended December 31,			
	2005	2004	2003	2002
Interest expense	\$185	\$155	\$209	\$196

Interest expense for the year ended December 31, 2005 increased \$30 or 19.4 percent as compared to 2004, reflecting the increase in interest rates applicable to our floating rate debt. As of December 31, 2005, approximately 45 percent of our total debt was floating rate debt. Interest expense for the year ended December 31, 2004 decreased \$54, or 25.9 percent, as compared to 2003. This decrease was attributable to lower interest rates on our debt primarily due to (i) the debt refinancings that we completed in the fourth quarter of 2003 and in 2004 and (ii) the positive impact of interest rate swaps that increased the portion of our interest expense that was based on floating interest rates. As of December 31, 2004, approximately 45 percent of our total debt was floating rate debt. Interest expense for the year ended December 31, 2003 increased \$13 or 6.8 percent. This increase primarily reflected higher interest costs related to the senior notes we issued in December 2002 and April 2003, partially offset by lower interest rates on our variable rate debt. As described below, in the first quarter of 2004, we refinanced these senior notes with lower interest rate notes.

Interest expense — subordinated convertible debentures and Preferred dividends of a subsidiary trust for each of the four years in the period ended December 31, 2005 was as follows:

	Year Ended December 31,			
	2005	2004	2003	2002
Interest expense — subordinated convertible debentures	\$14	\$14	—	—
Preferred dividends of a subsidiary trust	—	—	\$15	\$18

In August 1998, a subsidiary trust of Holdings sold certain trust preferred securities and used the proceeds from such sale to purchase certain convertible subordinated debentures from Holdings. The subsidiary trust that issued the trust preferred securities was consolidated with Holdings until December 31, 2003, when it was deconsolidated following the adoption of a new accounting principle.

For periods prior to the deconsolidation, the dividends on the trust preferred securities were reflected as an expense on our consolidated statements of operations and the interest on the subordinated convertible debentures was eliminated in consolidation and thus was not reflected as an expense on our consolidated statement of operations. For periods after the deconsolidation, the dividends on the trust preferred

securities are no longer reflected as an expense on our consolidated statements of operations and the interest on the subordinated convertible debentures is no longer eliminated in consolidation and thus is now reflected as an expense on our consolidated statements of operations. Because the interest on the subordinated convertible debentures corresponds to the dividends on the trust preferred securities, this change does not alter the total amount of expense reported.

Other (income) expense, net for each of the four years in the period ended December 31, 2005 was as follows:

	Year Ended December 31,			
	2005	2004	2003	2002
Other (income) expense, net	\$(9)	\$176	\$43	\$(1)

2005 other income of \$(9) primarily represents interest income. 2004 other expense of \$176 primarily relates to approximately \$171 of charges incurred in the first quarter of 2004 related to the refinancing of approximately \$2.1 billion of debt. This refinancing is discussed further below; see "Liquidity and Capital Resources." 2003 other expense of \$43 includes \$29 of charges incurred in connection with the redemption of previously issued senior subordinated notes as well as an \$11 write-off of notes receivable that were deemed impaired. The charge related to the redemption of notes primarily reflects the redemption price premium and the write-off of previously capitalized financing costs related to such notes. The charge associated with the notes receivable write-off relates to notes received as consideration for non-core assets that were disposed of in prior years.

Income Taxes

The following table summarizes our consolidated provision (benefit) for income taxes and the related effective tax rate for each respective period:

	2005	2004	2003	2002
Pre-tax income (loss)	\$310	\$(88)	\$(303)	\$(117)
Provision (benefit) for income taxes	123	(4)	(49)	1
Effective tax rate ⁽¹⁾	39.7%	4.5%	16.2%	(0.9)%

(1) A detailed reconciliation of the consolidated effective tax rate to the U.S. federal statutory income tax rate is included in note 11 to our consolidated financial statements.

The difference between the 2005 consolidated effective tax rate of 39.7 percent and the U.S. federal statutory income tax rate of 35.0 percent relates primarily to state taxes and certain nondeductible charges. The difference between the 2004 consolidated effective tax rate of 4.5 percent and the U.S. federal statutory income tax rate of 35.0 percent relates primarily to state taxes, the goodwill impairment charge and other nondeductible charges. The difference between the 2003 consolidated effective tax rate of 16.2 percent and the U.S. federal statutory income tax rate of 35.0 percent relates primarily to state taxes, the goodwill impairment charge, deferred restatement charges and other nondeductible charges. The difference between the 2002 consolidated effective tax rate of (0.9) percent and the U.S. federal statutory income tax rate of 35.0 percent relates primarily to state taxes and the goodwill impairment charges.

Our consolidated effective income tax rate will change based on discrete events (such as audit settlements) as well as other factors, including the geographical mix of income before taxes and the related tax rates in those jurisdictions. We anticipate that our 2006 annual consolidated effective tax rate will approximate 40 percent.

Recent Accounting Pronouncements

See note 2 to the consolidated financial statements for a full description of recent accounting pronouncements, including the respective dates of adoption and effects on our results of operations and financial condition.

Liquidity and Capital Resources

Liquidity. We manage our liquidity using internal cash management practices, which are subject to (1) the statutes, regulations and practices of each of the local jurisdictions in which we operate, (2) the legal requirements of the agreements to which we are a party and (3) the policies and cooperation of the financial institutions we utilize to maintain and provide cash management services.

Our principal existing sources of cash are cash generated from operations and from the sale of rental equipment and borrowings available under our revolving credit facility and receivables securitization facility. As of December 31, 2005, we had (i) \$450 of borrowing capacity available under the revolving credit facility portion of our \$1.55 billion senior secured credit facility and (ii) \$200 of borrowing capacity available under our receivables securitization facility (reflecting the size of the eligible collateral pool as of such date and no loans outstanding). We believe that our existing sources of cash will be sufficient to support our existing operations over the next twelve months.

We expect that our principal needs for cash relating to our existing operations over the next twelve months will be to fund (i) operating activities and working capital, (ii) the purchase of rental equipment and inventory items offered for sale, (iii) payments due under operating leases, (iv) debt service and (v) acquisitions. We plan to fund such cash requirements from our existing sources of cash. In addition, we may seek additional financing through the securitization of some of our equipment or real estate or through the use of additional operating leases. For information on the scheduled principal and interest payments coming due on our outstanding debt and on the payments coming due under our existing operating leases, see "—Certain Information Concerning Contractual Obligations."

The amount of our future capital expenditures will depend on a number of factors, including general economic conditions and growth prospects. We estimate that our capital expenditures for 2006 will range between \$900 and \$925. 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 and receivables securitization facility.

While emphasizing internal growth, we intend to continue to expand through a disciplined acquisition program. We will consider potential transactions of varying sizes and may, on a selective basis, pursue

acquisition or consolidation opportunities involving other public companies or large privately-held companies. 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 debt or equity financing and, consequently, our indebtedness may increase or the ownership of existing stockholders may be diluted as we implement our growth strategy.

Transactions Completed in 2004

We refinanced approximately \$2.1 billion of debt in 2004 (“the Refinancing”). The Refinancing extended debt maturities, reduced interest expense going forward and provided the Company with greater financial flexibility. As part of the Refinancing, the Company:

- amended and restated URI’s senior secured credit facility (“New Credit Facility”) to replace URI’s previous \$1.3 billion senior secured credit facility;
- sold \$1 billion of URI’s 6½ percent Senior Notes Due 2012;
- sold \$375 of URI’s 7 percent Senior Subordinated Notes Due 2014;
- repaid \$639 of term loans and \$52 of borrowings that were outstanding under the old credit facility;
- repurchased \$845 principal amount of URI’s 10¼ percent Senior Notes Due 2008 (the “10¼ percent Notes”), pursuant to a tender offer;
- redeemed \$300 principal amount of URI’s outstanding 9¼ percent Senior Subordinated Notes Due 2009 (the “9¼ percent Notes”); and
- redeemed \$250 principal amount of URI’s outstanding 9 percent Senior Subordinated Notes Due 2009 (the “9 percent Notes”).

The Refinancing was completed during the first quarter of 2004, except that (i) the redemption of the 9 percent Notes was completed on April 1, 2004 and a portion of the term loan that is part of the New Credit Facility was drawn on such date and (ii) an additional \$4 of the 10¼ percent Notes were repurchased on April 7, 2004.

In connection with the Refinancing, the Company incurred aggregate charges of approximately \$171. These charges were attributable primarily to (i) the redemption and tender premiums for notes redeemed or repurchased as part of the Refinancing and (ii) the write-off of previously capitalized costs relating to the debt refinanced. These charges were recorded in other (income) expense, net.

7 percent Senior Subordinated Notes. In January 2004, as part of the Refinancing described above, URI issued \$375 aggregate principal amount of 7 percent Senior Subordinated Notes (the “7 percent Notes”) which are due February 15, 2014. The net proceeds from the sale of the 7 percent Notes were approximately \$369, after deducting offering expenses. The 7 percent Notes are unsecured and are guaranteed by Holdings and, subject to limited exceptions, URI’s domestic subsidiaries. The 7 percent Notes mature on February 15, 2014 and may be redeemed by URI on

or after February 15, 2009, at specified redemption prices that range from 103.5 percent in 2009 to 100.0 percent in 2012 and thereafter. In addition, on or prior to February 15, 2007, URI may, at its option, use the proceeds of public equity offerings to redeem up to an aggregate of 35 percent of the outstanding 7 percent Notes at a redemption price of 107.0 percent. The indenture governing the 7 percent Notes contains certain restrictive covenants, including limitations on (i) additional indebtedness, (ii) restricted payments, (iii) liens, (iv) dividends and other payments, (v) preferred stock of certain subsidiaries, (vi) transactions with affiliates, (vii) the disposition of proceeds of asset sales and (viii) the Company’s ability to consolidate, merge or sell all or substantially all of its assets.

6½ percent Senior Notes. In February 2004, as part of the Refinancing described above, URI issued \$1 billion aggregate principal amount of 6½ percent Senior Notes (the “6½ percent Notes”) which are due February 15, 2012. The net proceeds from the sale of the 6½ percent Notes were approximately \$985, after deducting offering expenses. The 6½ percent Notes are unsecured and are guaranteed by Holdings and, subject to limited exceptions, URI’s domestic subsidiaries. The 6½ percent Notes mature on February 15, 2012 and may be redeemed by URI on or after February 15, 2008, at specified redemption prices that range from 103.25 percent in 2008 to 100.0 percent in 2010 and thereafter. In addition, on or prior to February 15, 2007, URI may, at its option, use the proceeds of public equity offerings to redeem up to an aggregate of 35 percent of the outstanding 6½ percent Notes at a redemption price of 106.5 percent. The indenture governing the 6½ percent Notes contains certain restrictive covenants, including limitations on (i) additional indebtedness, (ii) restricted payments, (iii) liens, (iv) dividends and other payments, (v) preferred stock of certain subsidiaries, (vi) transactions with affiliates, (vii) the disposition of proceeds of asset sales, (viii) the Company’s ability to consolidate, merge or sell all or substantially all of its assets and (ix) sale-leaseback transactions.

New Credit Facility. In the first quarter of 2004, as part of the Refinancing described above, the Company amended and restated URI’s senior secured credit facility. The amended and restated facility includes (i) a \$650 revolving credit facility, (ii) a \$150 institutional letter of credit facility and (iii) a \$750 term loan. The revolving credit facility, institutional letter of credit facility and term loan are governed by the same credit agreement. URI’s obligations under the credit facility are guaranteed by Holdings and, subject to limited exceptions, URI’s domestic subsidiaries and are secured by liens on substantially all of the assets of URI, Holdings and URI’s domestic subsidiaries. Set forth below is certain additional information concerning the amended and restated facility.

Revolving Credit Facility. The revolving credit facility enables URI to borrow up to \$650 on a revolving basis and enables certain of the Company’s Canadian subsidiaries to borrow up to \$150 (provided that the aggregate borrowings of URI and the Canadian subsidiaries may not exceed \$650). A portion of the revolving credit facility, up to \$250, is available for issuance of letters of credit. The revolving credit facility is scheduled

to mature and terminate in February 2009. As of December 31, 2005 and 2004, the outstanding borrowings under this facility were approximately \$137 and \$133, respectively, and utilized letters of credit were \$64 and \$50, respectively. All outstanding borrowings under the revolving credit facility at December 31, 2005 and December 31, 2004 were Canadian subsidiary borrowings.

U.S. dollar borrowings under the revolving credit facility accrue interest, at the option of URI's Canadian subsidiaries, at either (a) the ABR rate (which is equal to the greater of (i) the Federal Funds Rate plus 0.5 percent and (ii) JPMorgan Chase Bank's prime rate) plus a margin of 1.25 percent, or (b) an adjusted LIBOR rate plus a maximum margin of 2.25 percent.

Canadian dollar borrowings under the revolving credit facility accrue interest, at the borrower's option, at either (a) the Canadian prime rate (which is equal to the greater of (i) the CDOR rate plus 1 percent and (ii) JPMorgan Chase Bank, Toronto Branch's prime rate) plus a margin of 1.25 percent, or (b) the B/A rate (which is equal to JPMorgan Chase Bank, Toronto Branch's B/A rate) plus a maximum margin of 2.25 percent. The rate applicable to Canadian borrowings outstanding under the revolving credit facility was 5.29 and 4.81 at December 31, 2005 and 2004, respectively.

URI is also required to pay the lenders a commitment fee equal to 0.5 percent per annum, payable quarterly, in respect of undrawn commitments under the revolving credit facility.

Institutional Letter of Credit Facility ("ILCF"). The ILCF provides for up to \$150 in letters of credit. The ILCF is in addition to the letter of credit capacity under the revolving credit facility. The total combined letter of credit capacity under the revolving credit facility and the ILCF is \$400. Subject to certain conditions, all or part of the ILCF may be converted into term loans. The ILCF is scheduled to terminate in February 2011. As of both December 31, 2005 and 2004, the outstanding letters of credit under the ILCF were approximately \$150.

URI is required to pay a fee which accrues at the rate of 0.1 percent per annum on the amount of the ILCF. In addition, URI is required to pay participation and other fees in respect of letters of credit. For letters of credit obtained under both the ILCF and the revolving credit facility, these fees accrue at the rate of 2.25 percent per annum. In May 2005, based on the Company's first quarter 2005 funded debt to cash flow ratio, the participation fee was reduced to 2.0 percent.

Term Loan. The term loan was obtained in two draws. An initial draw of \$550 was made upon the closing of the credit facility in February 2004 and an additional draw of \$200 was made on April 1, 2004. Amounts repaid in respect of the term loan may not be reborrowed.

The term loan must be repaid in installments as follows: (i) during the period from and including June 30, 2004 to and including March 31, 2010, URI must repay on each March 31, June 30, September 30 and December 31 of each year an amount equal to one-fourth of 1 percent of the

original aggregate principal amount of the term loan and (ii) URI must repay on each of June 30, 2010, September 30, 2010, December 31, 2010, and at maturity on February 14, 2011 an amount equal to 23.5 percent of the original aggregate principal amount of the term loan. As of December 31, 2005 and 2004, amounts outstanding under the term loan were approximately \$737 and \$744, respectively.

Borrowings under the term loan accrue interest, at URI's option, at either (a) the ABR rate plus a maximum margin of 1.25 percent, or (b) an adjusted LIBOR rate plus a maximum margin of 2.25 percent. The rate was 6.63 percent and 4.67 percent at December 31, 2005 and 2004, respectively.

Covenants. Under the agreement governing the New Credit Facility, the Company is required to, among other things, satisfy certain financial tests relating to: (a) interest coverage ratio, (b) the ratio of funded debt to cash flow, (c) the ratio of senior secured debt to tangible assets and (d) the ratio of senior secured debt to cash flow. If the Company is unable to satisfy any of these covenants, the lenders could elect to terminate the credit facility and require the Company to repay the outstanding borrowings under the credit facility. The Company is also subject to various other covenants under the agreements governing its credit facility and other indebtedness. These covenants require the Company to timely file audited annual and quarterly financial statements with the SEC and limit or prohibit, among other things, the Company's ability to incur indebtedness, make prepayments of certain indebtedness, pay dividends, make investments, create liens, make acquisitions, sell assets and engage in mergers and acquisitions. If at any time an event of default under the New Credit Facility exists, the interest rate applicable to each revolving and term loan will be based on the highest margins above plus 2 percent.

Transactions Completed in 2005

Matters Relating to Consent Solicitation: In 2005, the Company successfully solicited consents for amendments to the indentures governing the following securities:

- 6½ percent Senior Notes due 2012
- 7½ percent Senior Subordinated Notes due 2013
- 7 percent Senior Subordinated Notes due 2014
- 1½ percent Convertible Senior Subordinated Notes due 2023 ("Convertible Notes")
- 6½ percent Convertible Quarterly Income Preferred Securities due 2028 ("QUIPs")

The indentures for these securities require annual and other periodic reports to be filed with the SEC. On September 19, 2005, the Company obtained consents from holders of these securities and entered into supplemental indentures amending the applicable covenants to allow the Company until March 31, 2006 to comply with the requirement to make timely SEC filings (and waiving related defaults that occurred prior to the effectiveness of the amendments). In addition, the supplemental indenture relating to the Convertible Notes changed the conversion

rate from 38.9520 to 44.9438 shares of United Rentals common stock for each \$1,000 (“one thousand dollars”) principal amount of Convertible Notes. Pursuant to the terms of the consent solicitation, the Company paid aggregate consent fees of approximately \$34 to holders of its nonconvertible notes and QUIPs. These costs are being amortized through the maturity dates of the nonconvertible notes and QUIPs. Amortization expense recorded in 2005 for these costs was \$1.

In March 2005, the Company successfully obtained its lenders’ consent to an amendment to the New Credit Facility that waived the covenant violation from the delay in making certain SEC filings and extended the Company’s deadline to make SEC filings until June 29, 2005 for our 2004 Annual Report on Form 10-K and until August 15, 2005 for our first quarter 2005 Form 10-Q. In June 2005, the Company successfully obtained its lenders’ consent to an amendment to the New Credit Facility that waived the covenant violation from the delay in making certain SEC filings and extended the Company’s deadline to make SEC filings until December 31, 2005 for our 2004 Annual Report on Form 10-K and for our 2005 Form 10-Qs. Both of these consents were obtained without the payment of any consent fees. In November 2005, the Company successfully obtained its lenders’ consent to an amendment to the New Credit Facility that waived the covenant violation from the delay in making certain SEC filings and extended the Company’s deadline to make SEC filings until March 31, 2006. Consent fees in the amount of \$1 were paid to the lenders under the New Credit Facility.

On March 31, 2006, the Company obtained its lenders’ consent to an additional amendment to the New Credit Facility that (1) waived the covenant violation from the delay in making certain SEC filings, (2) extended the Company’s deadline to make its SEC filings until April 28, 2006 and (3) limited the Company’s ability to borrow under the New Credit Facility to amounts necessary to find obligations to be paid in the ordinary course during the one-week period following the applicable borrowing until these SEC filings are made.

Accounts Receivable Securitization: On May 31, 2005, we obtained a new \$200 accounts receivable securitization facility and terminated our then existing \$250 accounts receivable securitization facility. The new facility provides for generally lower borrowing costs than the old facility. In addition, the new facility provides for a substantially longer term, with the scheduled termination date being May 29, 2009, compared with September 30, 2006 under the old facility. There were no outstanding borrowings under the old facility at the time it was terminated. In connection with terminating the old facility, we incurred a charge of approximately \$1, representing the write-off of previously capitalized costs relating to the old facility.

The new facility enables one of our subsidiaries to borrow up to \$200 against a collateral pool of eligible accounts receivable. Consistent with the old facility, the borrowings under the new facility will be reflected as debt on our consolidated balance sheets and the receivables in the collateral pool will be reflected as assets on our consolidated balance sheets. However, such assets are only available to satisfy the

obligations of the borrower subsidiary, and once the obligations of the borrower subsidiary are satisfied, the remaining assets will be available to be dividended to the parent.

Key terms of this facility include:

- borrowings may be made only to the extent that the face amount of the receivables in the collateral pool exceeds the outstanding loans by a specified amount;
- the facility is structured so that the receivables in the collateral pool are the lenders’ only source of repayment;
- prior to expiration or early termination of the facility, amounts collected on the receivables may, subject to certain conditions, be retained by the borrower, provided that the remaining receivables in the collateral pool are sufficient to secure the then outstanding borrowings;
- after expiration or early termination of the facility, no new amounts will be advanced under the facility and collections on the receivables securing the facility will be used to repay the outstanding borrowings; and
- the facility contains standard termination events including, without limitation, a termination event if (i) the long-term senior secured rating of URI falls below either B+ from Standard & Poor’s Rating Services or B2 from Moody’s Investors Service or (ii) our New Credit Facility is terminated. Our current ratings are discussed below.

Outstanding borrowings under the facility generally accrue interest at the commercial paper rate plus a specified spread not to exceed 1.0 percent. There were no outstanding borrowings under this facility at December 31, 2005. We are also required to pay a commitment fee based on the long-term senior secured ratings of URI. This commitment fee was 0.55 percent at December 31, 2005.

Redemption of remaining 10% Senior Notes: In April 2005, the Company redeemed \$12 principal amount of URI’s 10% Senior Notes due 2008 (the “10% Notes”). The principal repurchased represented the amounts of the 10% Notes still outstanding after the 2004 tender offer. In connection with this redemption, the Company incurred charges of approximately \$1. These charges were attributed primarily to (i) the redemption for notes redeemed and (ii) the write-off of previously capitalized costs. These charges were recorded in other (income) expense, net.

Loan Covenants and Compliance

As of December 31, 2005 and 2004, we were in compliance with the covenants of the 7 percent Notes and the 6½ percent Notes, as amended, as discussed above, as well as the covenants of our 7½ percent Senior Subordinated Notes due 2013, Convertible Notes, the QUIPs and the New Credit Facility. As discussed above (see “Transactions Completed in 2005—Matters Relating to Consent Solicitations”), on September 19, 2005, we amended the indentures governing the above-described securities and our New Credit Facility to allow the Company until March 31, 2006 to comply with the requirement to make timely SEC filings. As described above, on

March 31, 2006 the Company obtained its lenders' consent to an additional amendment to the New Credit Facility that extended the Company's deadline to make its SEC filings until April 28, 2006.

As of March 31, 2006 we have filed our annual reports on Form 10-K for the years ended December 31, 2005 and 2004; however, we have not yet filed any of our quarterly reports on Form 10-Q for the periods ended in 2005. Therefore, as of March 31, 2006, we are in violation of the amendments to our indentures due to not filing our quarterly reports (see "Risk Factors—We will be unable to file our delinquent quarterly reports on Form 10-Q by the end of the extension period granted by holders of our bonds, which will give our bondholders the right to declare an event of default.").

The Company is currently in compliance with the New Credit Facility, as amended, as of March 31, 2006. However, if the Company were not to file the required SEC reports by April 28, 2006, the Company would be required to obtain an additional extension or be in immediate default under the New Credit Facility. If the Company's bondholders declare an event of default under any of the Company's indentures, the waiver of default contained in the March 31, 2006 amendment will nevertheless continue until April 28, 2006. In addition, the amendment to our New Credit Facility limits our ability to make borrowings as discussed above.

At December 31, 2005 and 2004, we were in full compliance with all our financial covenants in the New Credit Facility and the indentures governing our notes and convertible securities. We consider our most restrictive covenant to be the Minimum Interest Coverage ratio. The minimum amount permitted under this covenant is as follows:

Period	Ratio
June 30, 2004 through December 31, 2004	1.35 to 1.0
January 1, 2005 through December 31, 2005	1.45 to 1.0
January 1, 2006 and thereafter	1.65 to 1.0

Certain Information Concerning Contractual Obligations

The table below provides certain information concerning the payments coming due under certain categories of our existing contractual obligations as of December 31, 2005:

	2006	2007	2008	2009	2010	Thereafter	Total
Debt excluding capital leases ⁽¹⁾	\$ 8	\$ 8	\$ 8	\$145	\$531	\$2,167	\$2,867
Interest due on debt ⁽²⁾	206	204	203	192	172	295	1,272
Capital leases ⁽¹⁾	19	17	12	7	4	4	63
Operating leases ⁽¹⁾ :							
Real estate	78	73	63	50	36	129	429
Rental equipment	70	38	31	9	—	—	148
Other equipment	30	20	13	9	6	2	80
Service agreements ⁽³⁾	3	2	1	—	—	—	6
Purchase obligations ⁽⁴⁾	483	—	—	—	—	—	483
Subordinated convertible debentures ⁽⁵⁾	14	14	14	14	14	475	545
Total	\$911	\$376	\$345	\$426	\$763	\$3,072	\$5,893

(1) The payments due with respect to a period represent (i) in the case of debt and capital leases, the scheduled principal payments due in such period, and (ii) in the case of operating leases, the minimum lease payments due in such period under non-cancelable operating leases plus the maximum potential guarantee amounts discussed below under "—Certain Information Concerning Off-Balance Sheet Arrangements."

(2) Estimated interest payments have been calculated based on the principal amount of debt and the effective interest rates as of December 31, 2005.

(3) These represent service agreements with third parties to operate the distribution centers associated with our contractor supplies business.

(4) As of December 31, 2005, the Company had outstanding purchase orders with its equipment and inventory suppliers. These purchase orders, which were negotiated in the ordinary course of business, aggregate approximately \$483. These purchase commitments can be cancelled by the Company, generally with 30 days notice and without cancellation penalties. The equipment and inventory receipts from the suppliers for these purchases and related payments to the suppliers are expected to be completed throughout 2006.

(5) Includes interest payments.

Our actual minimum interest coverage ratios for the years ended December 31, 2005 and 2004 were 2.22 and 2.06, respectively.

Sources and Uses of Cash

During 2005, we (i) generated cash from operations of \$643, (ii) generated cash from the sale of rental equipment of \$307 and (iii) utilized cash for debt repayments and financing costs of \$74. We used cash during this period principally to (i) purchase rental equipment of \$741, (ii) purchase other property and equipment of \$82 and (iii) purchase other companies, net of cash acquired, of \$40.

During 2004, we (i) generated cash from operations of \$737, (ii) generated cash from the sale of rental equipment of \$275 and (iii) utilized cash for debt repayments, net of borrowings, and financing costs of \$51. We used cash during this period principally to (i) purchase rental equipment of \$592, (ii) purchase other property and equipment of \$57 and (iii) purchase other companies, net of cash acquired, of \$102.

Our credit ratings as of March 31, 2006 were as follows:

	Corporate Rating	Outlook
Moody's	B2	Negative
S&P	BB-	Negative
Fitch	BB	Negative

Both our ability to obtain financing and the related cost of borrowing are affected by our credit ratings, which are periodically reviewed by these rating agencies. Our current credit ratings are below investment grade and we expect our access to the public debt markets to be limited to the non-investment grade segment until our ratings reflect an investment grade rating.

Certain Information Concerning Restricted Stock

We have granted to employees other than executive officers and directors approximately 567,000 shares of restricted stock that have not yet vested. The shares vest in 2006, 2007 or 2008 or earlier upon a change in control of the Company, death, disability, retirement or certain terminations of employment, and are subject to forfeiture prior to vesting on certain other terminations of employment, the violation of non-compete provisions and certain other events. If a holder of restricted stock sells his stock and receives sales proceeds that are less than a specified guaranteed amount set forth in the grant instrument, we have agreed to pay the holder the shortfall between the amount received and such specified amount; however, the foregoing only applies to sales that are made within five trading days of the vesting date. The specified guaranteed amount is (i) \$9.18 per share with respect to approximately 326,000 shares, \$17.20 per share with respect to approximately 9,000 shares, and \$27.26 per share with respect to approximately 8,000 shares scheduled to vest in 2006 and (ii) \$17.20 per share with respect to approximately 167,000 shares scheduled to vest in 2007 and (iii) \$19.86 per share with respect to approximately 57,000 shares scheduled to vest in 2008.

Certain Information Concerning Off-Balance Sheet Arrangements

We lease real estate, rental equipment and non-rental equipment under operating leases as a regular business activity. As part of some of our equipment operating leases, we guarantee that the value of the equipment at the end of the term will not be less than a specified projected residual value. If the actual residual value for all equipment subject to such guarantees were to be zero, then our maximum potential liability under these guarantees would be approximately \$26. Under current circumstances we do not anticipate paying significant amounts under these guarantees; however, we cannot be certain that changes in market conditions or other factors will not cause the actual residual values to be lower than those currently anticipated. In accordance with FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," this potential liability was not reflected on our balance sheet as of December 31, 2005 and 2004 or any prior date because the leases associated with such guarantees were entered into prior to January 1, 2003. For additional information concerning lease payment obligations under our operating leases, see "—Certain Information Concerning Contractual Obligations" above.

Certain Information Concerning Trust Preferred Securities

In August 1998, a subsidiary trust of Holdings sold \$300 of QUIPs. The trust used the proceeds from the sale of these securities to purchase 6½ percent subordinated convertible debentures due 2028 which resulted in Holdings receiving all of the net proceeds of the sale. The subsidiary trust that issued the trust preferred securities was consolidated with Holdings until December 31, 2003, when it was deconsolidated.

For periods prior to the deconsolidation, the dividends on the trust preferred securities were reflected as an expense on our consolidated statements of operations and the interest on the subordinated convertible debentures was eliminated in consolidation and thus was not reflected as an expense on our consolidated statements of operations. For periods after the deconsolidation, the dividends on the trust preferred securities are no longer reflected as an expense on our consolidated statements of operations and the interest on the subordinated convertible debentures is no longer eliminated in consolidation and thus is now reflected as an expense on our consolidated statements of operations. Because the interest on the subordinated convertible debentures corresponds to the dividends on the trust preferred securities, this change does not alter the total amount of expense required to be recorded.

Relationship Between Holdings and URI

Holdings is principally a holding company and primarily conducts its operations through its wholly owned subsidiary 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 and tax related services and support, (iii) information technology systems and support, (iv) acquisition related services, (v) legal services, and (vi) human resource support. 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 financial statements as selling, general and administrative expenses. In addition, although not legally obligated to do so, URI has in the past made, and expects that it will in the future make, distributions to Holdings to, among other things, enable Holdings to pay interest on the convertible debentures that were issued to a subsidiary trust of Holdings as described above.

As discussed above, our consolidated financial statements reflect (i) for periods prior to January 1, 2004, expenses related to dividends on certain trust preferred securities issued by a subsidiary trust of Holdings and (ii) for periods after January 1, 2004, expenses related to certain subordinated convertible debentures issued by Holdings to such subsidiary trust; however, the foregoing expenses are not reflected on the consolidated financial statements of URI because URI is not obligated with respect to the foregoing securities. This is the principal reason for the difference in the historical net income (loss) reported on the consolidated financial statements of URI and the net income (loss) reported on the consolidated financial statements of Holdings.

quantitative and qualitative disclosures about market risk

Our exposure to market risk primarily consists of (1) interest rate risk associated with our variable rate debt and (2) foreign currency exchange rate risk primarily associated with our Canadian operations.

Interest Rate Risk

We periodically utilize interest rate swap agreements and interest rate cap agreements to manage our interest costs and exposure to changes in interest rates. As of December 31, 2005 and December 31, 2004, we had swap agreements with an aggregate notional amount of \$1.2 billion and cap agreements with an agreement notional amount of \$725. The effect of the swap agreement was, at December 31, 2005 and December 31, 2004, to convert \$1.2 billion of our fixed rate notes to floating rate instruments. The fixed rate notes being converted consisted of (i) \$445 of our 6½ percent Notes through 2012, (ii) \$375 of our 7 percent Notes, and (iii) \$375 of our 7¾ percent senior subordinated notes through 2013.

As of December 31, 2005, after giving effect to our interest rate swap and cap agreements, we had an aggregate of \$1.3 billion of indebtedness that bears interest at variable rates. For this purpose, the portion of the term loan subject to the cap is considered fixed. The debt that is subject to fluctuations in interest rates includes \$136 of borrowings under our revolver Canadian facility, \$1.2 billion in swaps, and \$11 of term loans not subject to an interest rate cap. The weighted-average interest rates applicable to our variable rate debt on December 31, 2005 were (i) 5.3 percent for the revolving credit facility (represents the Canadian rate since the amount outstanding was Canadian borrowings), (ii) 6.6 percent for the term loan and (iii) 6.7 percent for the debt subject to our swap agreements. As of December 31, 2005, based upon the amount of our variable rate debt outstanding, after giving effect to our interest rate swap agreements, our annual earnings would decrease by approximately \$13.4 for each one percentage point increase in the interest rates applicable to our variable rate debt.

As of December 31, 2004, after giving effect to our interest rate swap and cap agreements, we had an aggregate of approximately \$1.3 billion of indebtedness that bears interest at variable rates. For this purpose, the portion of the term loan subject to the cap is considered fixed. The debt that is subject to fluctuations in interest rates includes \$133 of borrowings under our revolver Canadian facility, \$1.2 billion in swaps, and \$19 of term loans not subject to an interest rate cap. The weighted-average interest rates applicable to our variable rate debt on December 31, 2004 were (i) 4.8 percent for the revolving credit facility (represents the Canadian rate since the amount outstanding was Canadian borrowings), (ii) 4.7 percent for the term loan and (iii) 4.7 percent for the debt subject to our swap agreements. As of December 31, 2004, based upon the amount of our variable rate debt outstanding, after giving effect to our interest rate swap agreements, our annual earnings would decrease by approximately \$13 for each one percentage point increase in the interest rates applicable to our variable rate debt.

The amount of our variable rate indebtedness may fluctuate significantly as a result of changes in the amount of indebtedness outstanding under our revolving credit facility and receivables securitization facility from time to time. For additional information concerning the terms of our variable rate debt, see note 10 to our consolidated financial statements.

Currency Exchange Risk

The functional currency for our Canadian operations is the Canadian dollar. As a result, our future earnings could be affected by fluctuations in the exchange rate between the U.S. and Canadian dollars. Based upon the level of our Canadian operations during 2004 and 2005 relative to the company as a whole, a 10 percent change in this exchange rate would not have a material impact on our earnings. In addition, we periodically enter into foreign exchange contracts to hedge our transaction exposures. We had no outstanding foreign exchange contracts as of December 31, 2005, 2004 and 2003. We do not engage in purchasing forward exchange contracts for speculative purposes.

Forward-Looking Statements

Certain statements contained in this report and the accompanying materials are forward-looking in nature. These statements can be identified by the use of forward-looking terminology such as “believes,” “expects,” “plans,” “intends,” “projects,” “forecasts,” “may,” “will,” “should,” “on track” or “anticipates” or the negative thereof or comparable terminology, or by discussions of strategy or outlook. The company’s business and operations are subject to a variety of risks and uncertainties and, consequently, actual results may differ materially from those projected by any forward-looking statements. Factors that could cause actual results to differ from those projected include, but are not limited to, the following: (1) unfavorable economic and industry conditions can reduce demand and prices for the company’s products and services, (2) governmental funding for highway and other construction projects may not reach expected levels, (3) the company may not have access to capital that it may require, (4) any companies that United Rentals acquires could have undiscovered liabilities and may be difficult to integrate, (5) rates may increase less than anticipated or costs may increase more than anticipated, (6) the SEC inquiry is ongoing and there can be no assurance that the outcome of the SEC inquiry or internal review will not require additional changes in the company’s accounting policies and practices, restatements of financial statements, revisions of guidance, and/or otherwise be adverse to the company, and (7) the company may incur additional significant expenses in connection with the SEC inquiry of the company, the related internal review or the class action lawsuits and derivative actions that were filed in light of the SEC inquiry. Certain of these risks and uncertainties, as well as others, are discussed in greater detail in the company’s filings with the SEC. The company makes 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.

report of independent registered public accounting firm on financial statements

Board of Directors and Stockholders
United Rentals, Inc.

We have audited the accompanying consolidated balance sheets of United Rentals, Inc. and subsidiaries (the Company) as of December 31, 2005, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the four years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of United Rentals, Inc. and subsidiaries at December 31, 2005, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the four years in the

period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," effective January 1, 2002.

As discussed in note 3 to the consolidated financial statements, the Company has restated its 2003 and 2002 financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 29, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of internal control over financial reporting and an adverse opinion on the effectiveness of internal control over financial reporting because of the existence of a material weakness.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

New York, New York
March 29, 2006

consolidated balance sheets

December 31,

(In millions, except share data)	2005	2004	2003 (Restated)
Assets			
Cash and cash equivalents	\$ 316	\$ 303	\$ 79
Accounts receivable, net of allowance for doubtful accounts of \$45 in 2005, \$53 in 2004 and \$48 in 2003	572	490	483
Inventory	174	119	106
Prepaid expenses and other assets	154	120	118
Rental equipment, net	2,252	2,123	2,062
Property and equipment, net	445	397	407
Goodwill	1,328	1,293	1,412
Other intangible assets, net	33	37	27
	\$5,274	\$4,882	\$4,694
Liabilities and Stockholders' Equity			
Liabilities:			
Accounts payable	\$ 211	\$ 217	\$ 151
Accrued expenses and other liabilities	420	323	272
Debt	2,930	2,945	2,817
Subordinated convertible debentures	222	222	222
Deferred taxes	262	149	163
Total liabilities	4,045	3,856	3,625
Stockholders' equity:			
Preferred stock — \$.01 par value, 5,000,000 shares authorized:			
Series C perpetual convertible preferred stock — \$.30 liquidation preference, 300,000 shares issued and outstanding	—	—	—
Series D perpetual convertible preferred stock — \$.15 liquidation preference, 150,000 shares issued and outstanding	—	—	—
Common stock — \$.01 par value, 500,000,000 shares authorized, 77,302,915, 77,869,576, and 77,150,277 shares issued and outstanding in 2005, 2004 and 2003, respectively	1	1	1
Additional paid-in capital	1,345	1,349	1,330
Deferred compensation	(12)	(19)	(26)
Accumulated deficit	(155)	(342)	(258)
Accumulated other comprehensive income	50	37	22
Total stockholders' equity	1,229	1,026	1,069
	\$5,274	\$4,882	\$4,694

See accompanying notes.

consolidated statements of operations

Year Ended December 31,

(In millions, except per share amounts)	2005	2004	2003 (Restated)	2002 (Restated)
Revenues:				
Equipment rentals	\$2,583	\$2,289	\$2,176	\$2,152
Sales of rental equipment	307	275	233	223
New equipment sales	208	178	170	170
Contractor supplies sales	324	225	184	160
Service and other revenues	141	127	119	116
Total revenues	3,563	3,094	2,882	2,821
Cost of Revenues:				
Cost of equipment rentals, excluding depreciation	1,299	1,185	1,275	1,147
Depreciation of rental equipment	385	378	331	324
Cost of rental equipment sales	225	197	147	149
Cost of new equipment sales	170	147	147	145
Cost of contractor supplies sales	247	163	134	116
Cost of service and other revenue	72	65	66	64
Total cost of revenues	2,398	2,135	2,100	1,945
Gross profit	1,165	959	782	876
Selling, general and administrative expenses	596	497	449	443
Goodwill impairment	—	139	297	248
Restructuring and asset impairment charge	—	(1)	—	28
Non-rental depreciation and amortization	69	67	72	61
Operating income (loss)	500	257	(36)	96
Interest expense	185	155	209	196
Interest expense—subordinated convertible debentures	14	14	—	—
Preferred dividends of a subsidiary trust	—	—	15	18
Other (income) expense, net	(9)	176	43	(1)
Income (loss) before provision (benefit) for income taxes and cumulative effect of change in accounting principle	310	(88)	(303)	(117)
Provision (benefit) for income taxes	123	(4)	(49)	1
Income (loss) before cumulative effect of change in accounting principle	187	(84)	(254)	(118)
Cumulative effect of change in accounting principle, net of tax benefit of \$61	—	—	—	(288)
Net income (loss)	\$ 187	\$ (84)	\$ (254)	\$ (406)
Earnings (loss) per share—basic:				
Income (loss) available to common stockholders before cumulative effect of change in accounting principle	\$1.97	\$(1.07)	\$(3.29)	\$(1.08)
Cumulative effect of change in accounting principle, net	—	—	—	(3.80)
Income (loss) available to common stockholders	\$1.97	\$(1.07)	\$(3.29)	\$(4.88)
Earnings (loss) per share—diluted:				
Income (loss) available to common stockholders before cumulative effect of change in accounting principle	\$1.80	\$(1.07)	\$(3.29)	\$(1.08)
Cumulative effect of change in accounting principle, net	—	—	—	(3.80)
Income (loss) available to common stockholders	\$1.80	\$(1.07)	\$(3.29)	\$(4.88)

See accompanying notes.

consolidated statements of cash flows

Year Ended December 31,

(In millions)

	2005	2004	2003 (Restated)	2002 (Restated)
Cash Flows from Operating Activities				
Net income (loss)	\$ 187	\$ (84)	\$(254)	\$(406)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	454	445	403	385
Gain on sales of rental equipment	(82)	(78)	(86)	(74)
Amortization of deferred compensation	8	23	26	11
Restructuring charge	—	(5)	—	2
Goodwill impairment	—	139	297	248
Asset impairment	—	4	—	—
Repurchase premiums for debt refinancing	—	151	21	—
Write-off of notes receivable and deferred financing fees	—	—	24	—
Cumulative effect of a change in accounting principle, net of tax	—	—	—	288
Deferred taxes	112	(8)	(46)	(2)
Changes in operating assets and liabilities:				
Accounts receivable	(78)	10	(32)	(4)
Inventory	(32)	12	(2)	—
Prepaid expenses and other assets	11	43	(2)	11
Accounts payable	(6)	62	(56)	2
Accrued expenses and other liabilities	69	23	13	17
Net cash provided by operating activities	643	737	306	478
Cash Flows from Investing Activities				
Purchases of rental equipment	(741)	(592)	(379)	(498)
Purchases of property and equipment	(82)	(57)	(33)	(38)
Proceeds from sales of rental equipment	307	275	233	223
Buy-outs of equipment leases	—	—	(304)	—
Purchases of other companies	(40)	(102)	(5)	(173)
Proceeds from sale leaseback	—	23	—	—
Proceeds from sale of branches	3	—	—	—
In-process acquisition costs	—	—	—	(4)
Deposits on rental equipment purchases	—	—	—	(5)
Net cash used in investing activities	\$(553)	\$(453)	\$(488)	\$(495)

consolidated statements of cash flows

(continued)

Year Ended December 31,

(In millions)

	2005	2004	2003 (Restated)	2002 (Restated)
Cash Flows from Financing Activities				
Proceeds from debt	\$ —	\$ 2,211	\$ 879	\$ 508
Payments on debt	(39)	(2,225)	(614)	(492)
Purchase of interest rate caps	—	(14)	—	—
Payments of financing costs	(35)	(37)	(17)	(6)
Proceeds from the exercise of common stock options ...	2	6	1	64
Shares repurchased and retired	(8)	(5)	—	(27)
Company-obligated mandatorily redeemable convertible preferred securities of a subsidiary trust repurchased and retired	—	—	(3)	(38)
Net cash provided by (used in) financing activities	(80)	(64)	246	9
Effect of foreign exchange rates	3	4	(4)	—
Net increase (decrease) in cash and cash equivalents ...	13	224	60	(8)
Cash and cash equivalents at beginning of year	303	79	19	27
Cash and cash equivalents at end of year	\$ 316	\$ 303	\$ 79	\$ 19
Supplemental disclosure of cash flow information				
Cash paid for interest	\$ 197	\$ 175	\$ 225	\$ 212
Cash paid for taxes, net of refunds	8	(10)	(3)	(1)
Supplemental schedule of non-cash investing and financing activities				
Conversion of operating leases to capital leases	—	—	—	31
Conversion of convertible debt to common stock	—	—	—	3
Issuances of common stock as non-cash compensation	—	—	1	—
The Company acquired the net assets and assumed certain liabilities of other companies as follows:				
Assets, net of cash acquired	43	119	4	172
Less: liabilities assumed	(3)	(17)	—	(4)
	40	102	4	168
Due to seller and other payments	—	—	1	5
Net cash paid	\$ 40	\$ 102	\$ 5	\$ 173

See accompanying notes.

notes to consolidated financial statements

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

1. Organization and Basis of Presentation

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

We rent equipment to a diverse customer base that includes construction and industrial companies, manufacturers, utilities, municipalities, homeowners and others in the United States, Canada and Mexico. In addition to renting equipment, we sell new and used rental equipment, as well as related contractor supplies, parts and service. The nature of our business is such that short-term obligations are typically met by cash flow generated from long-term assets. Therefore, the accompanying balance sheets are presented on an unclassified basis.

The accompanying consolidated financial statements include our accounts and those of our wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Certain reclassifications of prior year amounts have been made to conform to the current year presentation.

2. Summary of Significant Accounting Policies

Cash Equivalents

We consider all highly liquid instruments with maturities of three months or less when purchased to be cash equivalents. Included in the cash balance at December 31, 2005 is \$75 that we agreed to maintain in an investment account for a traffic control subsidiary to conduct traffic control business with the state of Florida. In March 2006, we signed an agreement with the state of Florida whereby we are no longer required to maintain these funds in any type of account.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts. This allowance reflects our estimate of the amount of our receivables that we will be unable to collect.

Inventory

Inventory consists of new equipment, merchandise and contractor supplies, tools, parts, fuel and related supply items. Inventory is stated at the lower of cost or market and is net of a reserve for obsolescence and shrinkage of \$16, \$14, and \$9 at December 31, 2005, 2004 and 2003, respectively. Cost is determined, depending on the type of inventory, on either a weighted average or first-in, first-out method.

Rental Equipment

Rental equipment is recorded at cost and depreciated over the estimated useful lives of the equipment using the straight-line method. The range of estimated useful lives for rental equipment is two to ten years. Rental equipment is depreciated to a salvage value of zero to ten percent of cost. Ordinary repair and maintenance costs are charged to operations as incurred. Repair and maintenance costs are included in cost of revenues on our consolidated statements of operations. Repair and maintenance expense was \$213, \$201, \$184, and \$144, for the years ended December 31, 2005, 2004, 2003 and 2002, respectively.

Property and Equipment

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

Goodwill

Goodwill consists of the excess of cost over the fair value of identifiable net assets of businesses acquired. As discussed in note 4, goodwill is tested for impairment on at least an annual basis. Prior to January 1, 2004, we tested for goodwill impairment on a branch-by-branch basis. Accordingly, a goodwill write-off was required even if only one or a limited number of our branches had an impairment as of the testing date and even if there was no impairment for all our branches on an aggregate basis. Commencing January 1, 2004, we began testing for goodwill impairment at a regional, rather than a branch, level. We began testing for impairment at this level because Statement of Financial Accounting Standards (“SFAS”) No. 142, “Goodwill and Other Intangible Assets” requires that goodwill impairment testing be performed at the reporting unit level. In 2004, following a reorganization of our reporting structure, our regions became our reporting units. This change in reporting units may impact future goodwill impairment analyses because there are substantially fewer regions (nine) than there are branches (in excess of 700).

Other Intangible Assets

Other intangible assets consist of non-compete agreements and customer-related intangibles (specifically customer relationships). The non-compete agreements are being amortized on a straight-line basis over periods ranging from three to eight years. The customer relationships are being amortized on a straight-line basis over twelve years.

Long-Lived Assets

Long-lived assets are recorded at the lower of amortized cost or fair value. As part of an ongoing review of the valuation of long-lived assets, we assess the carrying value of such assets if facts and circumstances suggest they may be impaired. If this review indicates that the carrying value of these assets may not be recoverable, as determined by an undiscounted cash flow analysis over the remaining useful life, the carrying value would be reduced to its estimated fair value.

Derivative Financial Instruments

Under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", 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 periodically use derivative financial instruments in the management of our interest rate and foreign currency exposures. Derivative financial instruments are not used for trading purposes.

Translation of Foreign Currency

Assets and liabilities of our subsidiaries operating outside the United States which have a functional currency other than U.S. dollars are translated into U.S. dollars using exchange rates at the end of the year. Revenues and expenses are translated at average exchange rates effective during the year. Foreign currency translation gains and losses are included as a component of accumulated other comprehensive income (loss) within shareholders' equity.

Fair Value of Financial Instruments

The carrying amounts reported in our 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 the revolving credit facility and term loan are determined using current interest rates for similar instruments as of December 31, 2005, 2004 and 2003 and approximate the carrying value of these financial instruments due to the fact that the underlying instruments include provisions to adjust interest rates to approximate fair market value. The estimated fair value of our other financial instruments at December 31, 2005, 2004 and 2003 have been calculated based upon available market information and are as follows:

	2005		2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Subordinated convertible debentures	\$ 222	\$ 192	\$ 222	\$ 191	\$ 222	\$ 183
Senior and senior subordinated notes	2,044	1,997	2,056	1,994	2,080	2,228
Other debt	12	9	12	11	46	43

Revenue Recognition

Our rental contract periods are daily, weekly or monthly and we recognize equipment rental revenue on a straight-line basis. By way of example, if a customer were to rent a piece of equipment and the daily, weekly and monthly rental rates for that particular piece were (in actual dollars) \$100, \$300 and \$900, respectively, we would recognize revenue of \$32.14/day. The daily rate is calculated by dividing the monthly rate of \$900 by 28 days, the monthly term. As part of this straight-line methodology, when the equipment is returned, we recognize as incremental revenue the excess, if any, between the amount the customer is contractually required to pay over the cumulative amount of revenue recognized to date.

Revenues from the sale of rental equipment and new equipment are recognized at the time of delivery to, or pick-up by, the customer and when collectibility is reasonably assured. Sales of contractor supplies are also recognized at the time of delivery to, or pick-up by, the customer. For construction-related contracts in our traffic control segment which comprise approximately 8 percent of our total revenues, revenues are recognized based on the percentage of work completed. Application of the percentage of completion method is appropriate for these contracts because these services are essential to the repair and

construction of tangible property such as roads, highways, bridges and other infrastructure.

Advertising Expense

We advertise primarily through trade publications and yellow pages. Advertising expense is recognized over the period of the related benefit. Advertising expense was \$22, \$19, \$8 and \$8 for the years ended December 31, 2005, 2004, 2003 and 2002, respectively.

Insurance

We are insured for general liability, workers' compensation, and automobile liability, subject to deductibles per occurrence of \$2 for general liability, \$1 for workers' compensation and \$2 for automobile liability as of March 1, 2006. Losses within these deductible amounts are accrued based upon the aggregate liability for reported claims incurred, as well as an estimated liability for claims incurred but not yet reported. These liabilities are not discounted. The company is self insured for group medical claims but purchases "stop loss" insurance to protect itself from any one loss exceeding \$330,000 (actual dollars).

Income Taxes

We use the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the differences between financial statement and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Recognition of deferred tax assets is limited to amounts considered by management to be more likely than not realized in future periods.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates include restructuring and goodwill impairment charges, allowance for doubtful accounts, useful lives for depreciation and amortization, deferred income taxes, claim reserves, loss contingencies and fair values of financial instruments. Actual results could materially differ from those estimates.

Concentrations of Credit Risk

Financial instruments that potentially subject us to significant concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. We maintain cash and cash equivalents with high quality financial institutions. Concentration of credit risk with respect to accounts receivable is limited because a large number of geographically diverse customers make up our customer base. Our largest customer accounted for less than 1 percent of total revenues in each of 2005 and 2004 and no single customer represented greater than 1 percent of total accounts receivable at December 31, 2005 and 2004. We control credit risk through credit approvals, credit limits, and monitoring procedures.

Stock-Based Compensation

We account for stock-based compensation arrangements using the intrinsic value method in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees". At December 31, 2005, we had six stock-based compensation plans (see note 14 to our consolidated financial statements). Since stock options have been granted with exercise prices at or greater than the fair value of the shares at the date of grant, no compensation expense has been recognized. Restricted stock awards that we have granted are recognized as deferred compensation. We recognize compensation expense related to these restricted stock awards over their vesting periods, or earlier, upon acceleration of vesting. During 2004 and 2003, we recognized increased amortization expense for the accelerated vesting of approximately 404,000 and 866,000 shares of restricted stock, respectively. The following table provides additional information

related to our stock-based compensation arrangements for each of the four years in the period ended December 31, 2005:

	December 31,			
	2005	2004	2003	2002
			(Restated)	(Restated)
Net income (loss), as reported	\$ 187	\$ (84)	\$ (254)	\$ (406)
Plus: Stock-based compensation expense included in reported net income (loss), net of tax	5	13	20	7
Less: Stock-based compensation expense determined using the fair value method, net of tax	(6)	(17)	(23)	(11)
Pro forma net income (loss)	\$ 186	\$ (88)	\$ (257)	\$ (410)
Basic earnings (loss) available to common stockholders per share:				
As reported	\$1.97	\$(1.07)	\$(3.29)	\$(4.88)
Pro forma	\$1.96	\$(1.13)	\$(3.32)	\$(4.96)
Diluted earnings (loss) available to common stockholders per share:				
As reported	\$1.80	\$(1.07)	\$(3.29)	\$(4.88)
Pro forma	\$1.79	\$(1.13)	\$(3.32)	\$(4.96)

The weighted average fair value of options granted was \$8.18, \$7.33, \$5.47 and \$5.57 during 2005, 2004, 2003 and 2002, respectively. The fair value is estimated on the date of grant using the Black-Scholes option pricing model which uses subjective assumptions which can materially affect fair value estimates and, therefore, does not necessarily provide a single measure of fair value of options. We used a risk-free interest rate average of 3.9, 2.9, 1.81 and 2.01 percent in 2005, 2004, 2003 and 2002 respectively, a volatility factor for the market price of our common stock of 60, 62, 63 and 66 percent in 2005, 2004, 2003 and 2002, respectively, and a weighted-average expected life of options of approximately three years in 2005, 2004, 2003 and 2002. For purposes of these pro forma disclosures, the estimated fair value of options is amortized over the options' vesting period.

New Accounting Pronouncements

During the years ended December 31, 2005 and 2004, the Financial Accounting Standards Board ("FASB") issued several pronouncements of significance to us which are discussed in detail below. In addition, the FASB issued several other pronouncements, including standards on inventory (SFAS No. 151 "Inventory Costs, an amendment of ARB 43, Chapter 4"), exchanges of nonmonetary assets (SFAS No. 153 "Exchanges of Nonmonetary Assets"), and accounting changes (SFAS No. 154 "Accounting Changes and Error Corrections"), with which we either currently comply or are not anticipating to have a significant impact on our future financial condition or results of operations.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123(R), “Share-Based Payment” (“FAS 123(R)”), an amendment of FAS No. 123, “Accounting for Stock-Based Compensation,” which supersedes APB 25 and requires companies to recognize compensation expense using a fair value based method for costs related to share-based payments, including stock options. As permitted by the SEC, the requirements of FAS 123(R) are effective for our fiscal year beginning January 1, 2006. Upon adoption, we will elect to apply the modified prospective transition method and therefore we will not restate the results of prior periods. The implementation of FAS 123(R) is not expected to have a material impact on the Company.

FAS 123(R) also requires that the benefits of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after the effective date. While we can not estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options and the fair value of our common stock on the date of exercise), the amount of operating cash flows recognized in 2005 for such excess tax deductions was \$1.

In March 2005, the FASB issued Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143” (“FIN 47”). FIN 47 requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated. A conditional asset retirement obligation is a legal obligation to perform an asset retirement activity in which the timing or method of settlement are conditional upon a future event that may or may not be within control of the entity. The adoption of FIN 47 in 2005 did not have a material impact on the Company.

3. Restatement

Restatement and Reclassification of Previously Issued Consolidated Financial Statements and Related Matters

Subsequent to the filing of our Form 10-K for the year ended December 31, 2003, which included our consolidated financial statements for the years ended December 31, 2003 and 2002, it was determined that the Company’s originally issued financial statements for those periods required restatement to correct the accounting for (i) the recognition of equipment rental revenue; (ii) irregularities identified by the Special Committee with respect to six short-term, or minor, equipment sale-leaseback transactions; (iii) self-insurance reserves; (iv) customer relationships; and (v) the provision for income taxes.

The effects of the restatement adjustments on our originally reported results of operations for the years ended December 31, 2003 and 2002 and on our originally reported retained earnings at December 31, 2001, are summarized below.

	Net Loss Year Ended December 31,		Retained Earnings at December 31,
	2003	2002	2001
As originally reported	\$(259)	\$(398)	\$467
Adjustments for:			
Equipment rental revenues (a)	(2)	(3)	(17)
Sale-leaseback transactions (b)	20	2	(33)
Self-insurance reserves (c)	8	(13)	(41)
Customer relationships (d)	(2)	(1)	—
Pre-tax impact	24	(15)	(91)
Related tax effects	(9)	6	35
Adjustments, net of tax	15	(9)	(56)
Income taxes (e)	(10)	1	(9)
Total adjustments, net of tax	5	(8)	(65)
As restated	\$(254)	\$(406)	\$402

Below is a summary of the nature and amount of the adjustments reflected in the restatement (all amounts are presented on a pre-tax basis unless otherwise noted). We have provided below the impact on originally reported pre-tax and/or net income for 2001 and 2000 of certain of the items for which we are restating.

(a) **Recognition of equipment rental revenues.** Our originally reported results reflected the recognition of equipment rental revenues based on the minimum amounts which became due and payable under the terms of our applicable rental contracts. We have determined that equipment rental revenues should be recognized on a straight-line basis and have restated our previously reported results to reflect this correction of an error. Our restatement had the impact of increasing/(decreasing) originally reported pre-tax income for 2001, 2000 and for periods prior to 2000 by \$6, \$4 and \$(27), respectively.

(b) **Sale-leaseback transactions.** In 2002, 2001, and 2000 we previously recognized gross profits of \$1, \$20 and \$12, respectively, in conjunction with six minor sale-leaseback transactions. It has been determined that the accounting for these transactions constituted irregularities and we are restating our financial statements to properly reflect the accounting for these six transactions. At the dates of the original minor sale-leaseback transactions, we recognized a premium (excess profit above fair value) on these transactions. In exchange for receiving this profit premium, we agreed to disburse cash in later periods as well as pay premiums for subsequent equipment purchases (“subsequent purchases”).

Our restatement for the sale-leaseback transactions had the impact of increasing/(decreasing) originally reported pre-tax income for 2003, 2002, 2001 and 2000 by \$20, \$2, \$(21), and \$(12), respectively. These restatement adjustments reflect the elimination of the premium originally received in the minor sale-leaseback transactions as well as the deferral of any profit until all of our obligations associated with the originally received premiums were settled. Additionally, the adjustments reflect a reduction in previously recorded depreciation expense because this expense reflected capitalized equipment costs for subsequent purchases that were overstated.

(c) Self-insurance reserves. We self-insure for certain types of claims associated with our business, including (i) workers compensation claims and (ii) claims by third parties for injury or property damage caused by our equipment or personnel. These types of claims may take a substantial amount of time to resolve and, accordingly, the ultimate liability associated with a particular claim may not be known for an extended period of time. Our prior methodology for developing self-insurance reserves was based on management estimates of ultimate liability which were developed without obtaining actuarial valuations. In 2004, management adopted an estimation approach based on third party actuarial calculations that properly reflects and incorporates actuarial assumptions. Based on actuarial calculations performed by our third party actuaries in late 2004 and 2005, we concluded that the estimation process we previously used did not adequately take into account certain factors and that, as a result, a restatement was required. The factors that were not adequately addressed by our historical estimation process included future changes in the cost of known claims over time, cost inflation and incurred but not reported claims. Our restatement for the self-insurance reserves had the impact of increasing/(decreasing) originally reported pre-tax income for 2003, 2002, 2001, 2000 and for periods prior to 2000 by \$8, \$(13), \$(11), \$(18) and \$(12), respectively.

(d) Customer relationships. In 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS No. 141"), which required the use of the purchase method of accounting for business combinations and prohibited the use of the pooling of interests method. SFAS No. 141 also changed the definition of intangible assets acquired in a purchase business combination, providing specific criteria for the initial recognition and measurement of intangible assets apart from goodwill. SFAS 141 applied to all business combinations accounted for using the purchase method for which the acquisition date is July 1, 2001, or later.

We have reviewed acquisitions we made since July 1, 2001 and have determined that a portion of the purchase price for these acquisitions previously allocated to goodwill should be recorded as a separate intangible asset—customer relationships. This restatement reflects the amortization expense associated with the reallocation of a portion of the purchase price from goodwill (which is not amortized) to customer relationships (which are amortized). This correction of an error had the impact of decreasing originally reported pre-tax income for 2003 and 2002 by \$2 and \$1, respectively.

(e) Income taxes. We have restated our income tax provision to (i) correctly reflect all book-to-tax temporary differences (primarily depreciation and nondeductible reserves and accruals); (ii) reflect appropriate tax benefits for net operating loss and alternative minimum tax credits; (iii) calculate deferred taxes at appropriate legal entity tax rates; and (iv) account for the settlement of an IRS audit examination. Our restatement for income taxes had the impact of increasing/(decreasing) originally reported net income for 2003, 2002, 2001, 2000 and for periods prior to 2000 by \$(10), \$1, \$(3), \$(2) and \$(4), respectively.

Buy-out of operating lease

In addition to the restatement matters discussed above, we have determined that \$88 of costs for the year ended December 31, 2003 previously classified below operating income should be reclassified to cost of equipment rentals and included in operating income. This amount primarily represents the amount in excess of the fair value related to the buy-out of equipment under operating leases. This reclassification, which has the effect of reducing gross profit and other expense (income), net by \$88, has no impact on originally reported net income or earnings per share for the year ended December 31, 2003.

Trade packages

During the period from the fourth quarter of 2000 through 2002, the Company sold used equipment to certain suppliers (referred to as "trade packages"). In certain of the trade packages, prices may have included a premium above fair value. In order to induce these suppliers to buy used equipment at premium prices, the Company made commitments or concessions to the suppliers. It has been determined that the accounting for those transactions involved irregularities and that the Company improperly recognized revenue from the transactions involving the undisclosed inducements. However, because records were not created that would have permitted the linkage of the sales and inducements (as a result of instructions given by certain former employees of the Company), the Company is unable to determine the portion of the revenue and gross profit recognized in

connection with trade packages with these suppliers between 2000 and 2002 that was improperly recognized. During this period, all sales of used equipment to these suppliers (which includes all trade package transactions) generated total revenues and gross profits of \$38 and \$9, respectively. Notwithstanding the lack of records relating to these transactions, the Company believes that its financial statements from and after 2002 are materially correct with respect to the effect of these transactions.

The Special Committee concluded that, based on the evidence it reviewed, the practices regarding certain trade packages and minor sale-leaseback transactions described above appear to have been directed by the Company's two former chief financial officers. Both of these individuals, who are no longer with the Company, declined to cooperate with the Special Committee's investigation. Based upon recommendations of the Special Committee, the Company's board of directors directed the Company, among other things, to evaluate potential claims relating to certain former company personnel, including these individuals and compensation and benefits previously received by them described elsewhere in this report.

Purchase Accounting

The Company was formed and began operations in 1997 with the acquisition of six equipment rental companies. During the subsequent three year period, we grew rapidly and completed approximately 230 additional acquisitions. By the end of 1999, we were the largest equipment rental company in the world, with annual revenues of approximately \$2.9 billion. With management's focus now turned toward organic growth, the pace of our acquisitions significantly slowed and from September 2001 through the date of this report we completed only eight acquisitions. Substantially all of the business combinations that we have completed since the inception of the Company were accounted for as purchases, however, there were several significant business combinations accounted for in the earlier period that were accounted for as poolings.

Accounting standards applicable to purchase business combinations require the acquiring company to recognize the assets acquired and the liabilities assumed based on their fair values at the time of acquisition. Any excess between the cost of an acquired company and the sum of the fair values of tangible and identifiable intangible assets less liabilities assumed should be recognized as goodwill.

In our historical accounting for these purchase business combinations, long-lived fixed assets (comprised primarily of rental equipment) and goodwill generally represented the largest components of our acquisitions. As a result, when we performed our purchase price allocation process, the purchase price was primarily allocated to these assets.

As discussed above, in March 2005, our Board of Directors formed a Special Committee of independent directors to review matters related to the SEC inquiry. The Special Committee made certain findings related to the Company's historical practices concerning the valuation of rental equipment acquired in purchase business combinations. The committee concluded that certain of these practices were not adequate between 1997 and August 2000. These practices included, among other things, the use of inconsistent valuation methodologies, some of which were reflected in memoranda that were not provided to or reviewed by the Company's auditors, suggestions contained in those memoranda that improper methods of valuation be used (although the committee did not find evidence that such improper methods were generally applied), inadequate supervision of personnel, inadequate coordination with providers of outside valuations and apparent confusion on the part of one of those providers. The Special Committee concluded that certain Company personnel (whom the committee was unable to identify) may have sought to manipulate opening balance sheet values for equipment acquired in purchase business combinations by causing them to be understated and that these opening balance sheet values may have been understated by an amount the committee was unable to determine.

Following our review of our historical practices and the findings of the Special Committee, the Company considered whether the effect of the deficiencies identified by the committee required a restatement of previously reported results. These deficiencies in our historical practices between 1997 and August 2000 may have resulted in inaccurate values being ascribed to rental equipment that we acquired in purchase business combinations, including in some cases values that may have been below fair value. However, we do not have the ability to revalue this equipment because we are unable to currently determine its historical physical condition and the records that currently exist for this equipment are not sufficient to establish the physical condition of the equipment at the time of its acquisition.

The equipment valuations performed at the time of the acquisition, some of which included a physical inspection, reflected an assessment of the condition of the equipment. While, as the Special Committee identified, there were various deficiencies in our historical valuation practices, it is not possible to accurately revalue this equipment to assess the reasonableness of specific valuations. Therefore, we believe the only feasible approach is to give effect to the valuations that were performed contemporaneously with these acquisitions. Accordingly, notwithstanding deficiencies in the Company's historical valuation process as it relates to purchase business combinations, the Company does not believe a restatement is required and believes that its financial statements from and after 2002 are materially correct with respect to the effect of equipment valuations.

Below are our consolidated statements of operations, consolidated balance sheet and consolidated statements of cash flows as restated and as previously reported.

Consolidated Statements of Operations

	Year Ended December 31, 2003		Year Ended December 31, 2002	
	As Originally Reported	Restated	As Originally Reported	Restated
Revenues:				
Equipment rentals	\$2,177	\$2,176	\$2,155	\$2,152
Sales of rental equipment	181	233	176	223
New equipment sales	205	170	214	170
Contractor supplies sales	184	184	160	160
Service and other revenues	119	119	116	116
Total revenues	2,867	2,882	2,821	2,821
Cost of revenues:				
Cost of equipment rentals, excluding depreciation	1,192	1,275	1,138	1,147
Depreciation of rental equipment	332	331	326	324
Cost of rental equipment sales	121	147	117	149
Cost of new equipment sales	172	147	174	145
Cost of contractor supplies sales	134	134	116	116
Cost of service and other revenues	66	66	64	64
Total cost of revenues	2,019	2,100	1,935	1,945
Gross profit	848	782	886	876
Selling, general and administrative expenses	451	449	439	443
Goodwill impairment	297	297	248	248
Restructuring and asset impairment charge	—	—	28	28
Non-rental depreciation and amortization	69	72	59	61
Operating income (loss)	30	(36)	111	96
Interest expense	209	209	196	196
Preferred dividends of a subsidiary trust	15	15	18	18
Other (income) expense, net	133	43	(1)	(1)
Loss before provision for income taxes and cumulative effect of change in accounting principle	(327)	(303)	(101)	(117)
Provision (benefit) for income taxes	(68)	(49)	8	1
Loss before cumulative effect of change in accounting principle	(259)	(254)	(109)	(118)
Cumulative effect of change in accounting principle, net of tax benefit of \$61	—	—	(288)	(288)
Net loss	\$ (259)	\$ (254)	\$ (398)	\$ (406)
Loss per share — basic:				
Loss available to common stockholders before cumulative effect of change in accounting principle	\$ (3.35)	\$ (3.29)	\$ (0.98)	\$ (1.08)
Cumulative effect of change in accounting principle, net	—	—	(3.80)	(3.80)
Loss available to common stockholders	\$ (3.35)	\$ (3.29)	\$ (4.78)	\$ (4.88)
Loss per share — diluted:				
Loss available to common stockholders before cumulative effect of change in accounting principle	\$ (3.35)	\$ (3.29)	\$ (0.98)	\$ (1.08)
Cumulative effect of change in accounting principle, net	—	—	(3.80)	(3.80)
Loss available to common stockholders	\$ (3.35)	\$ (3.29)	\$ (4.78)	\$ (4.88)

Consolidated Balance Sheet

	December 31, 2003	
	As Originally Reported	Restated
ASSETS		
Cash and cash equivalents	\$ 79	\$ 79
Accounts receivable, net of allowance for doubtful accounts of \$47 and \$48, respectively	499	483
Inventory	106	106
Prepaid expenses and other assets	118	118
Rental equipment, net	2,072	2,062
Property and equipment, net	407	407
Goodwill	1,438	1,412
Other intangible assets, net	3	27
	\$4,722	\$4,694
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable	\$ 151	\$ 151
Accrued expenses and other liabilities	226	272
Debt	2,817	2,817
Subordinated convertible debentures	222	222
Deferred taxes	165	163
Total liabilities	3,581	3,625
Stockholders' equity:		
Preferred stock—\$.01 par value, 5,000,000 shares authorized	—	—
Common stock—\$.01 par value, 500,000,000 shares authorized, 77,150,277 shares issued and outstanding	1	1
Additional paid-in capital	1,329	1,330
Deferred compensation	(25)	(26)
Accumulated deficit	(189)	(258)
Accumulated other comprehensive income	25	22
Total stockholders' equity	1,141	1,069
	\$4,722	\$4,694

Consolidated Statements of Cash Flows

	Year Ended December 31, 2003		Year Ended December 31, 2002	
	As Originally Reported	Restated	As Originally Reported	Restated
Cash and cash equivalents at beginning of period	\$ 19	\$ 19	\$ 27	\$ 27
Cash flows provided by operating activities	342	306	518	478
Cash flows used in investing activities	(537)	(488)	(536)	(495)
Cash flows provided by financing activities	255	246	9	9
Effect of foreign exchange rates	—	(4)	1	—
Net (decrease) increase in cash and cash equivalents	60	60	(8)	(8)
Cash and cash equivalents at end of period	\$ 79	\$ 79	\$ 19	\$ 19

4. Acquisitions

We completed two, three, one and two acquisitions during the years ended December 31, 2005, 2004, 2003 and 2002, respectively. The results of operations of the businesses acquired in these acquisitions have been included in our results of operations from their respective acquisition dates.

In December 2005, we acquired Sandvick Equipment & Supply Company, a trench safety company, with annual revenues of approximately \$21.

In June 2005, we acquired HSS RentX branch locations in Colorado. Total 2004 revenues of the acquired branches were approximately \$9. The aggregate purchase price for these acquisitions was approximately \$42, less liabilities assumed of approximately \$10.

In October 2004, we acquired Atlantic Rentals Ltd., which had revenues in 2003 of approximately \$32.

In February 2004, we acquired 843504 Alberta Ltd. (formerly known as Skyreach Equipment, Ltd.), which had annual revenues in 2003 of approximately \$35. The aggregate purchase price for these 2004 acquisitions was approximately \$91, less liabilities assumed of \$22.

In June 2002, we acquired 35 rental locations from National Equipment Services, Inc. The aggregate initial consideration we paid for this acquisition as well as the other 2002 acquisition was approximately \$158, which was paid in cash.

The purchase prices for all acquisitions have been allocated to the assets acquired and liabilities assumed based on their respective fair values at their respective acquisition dates. Purchase price allocations are subject to change when additional information concerning asset and liability valuations is completed. The preliminary purchase price allocations that are subject to change primarily consist of rental and non-rental equipment valuations. These allocations are finalized within twelve months of the acquisition date and are not expected to result in significant differences between the preliminary and final allocations.

Pro forma combined results of operations giving effect to these acquisitions would not vary materially from historical results.

5. Goodwill and Other Intangible Assets

The following table presents the changes in the carrying amount of goodwill for each of the four years in the period ended December 31, 2005:

	General rentals	Trench safety, pump and power	Traffic control	Total
Balance at January 1, 2002	\$1,787	\$ 35	\$ 381	\$2,203
Impairment charges ⁽¹⁾	(395)	(19)	(183)	(597)
Goodwill related to acquisitions	8	66	—	74
Foreign currency translation and other adjustments	1	—	—	1
Balance at December 31, 2002	1,401	82	198	\$1,681
Impairment charges	(226)	(12)	(59)	(297)
Goodwill related to acquisitions	2	—	1	3
Foreign currency translation and other adjustments	25	—	—	25
Balance at December 31, 2003	1,202	70	140	\$1,412
Impairment charges	—	—	(139)	(139)
Goodwill related to acquisitions	35	—	—	35
Foreign currency translation and other adjustments	(14)	—	(1)	(15)
Balance at December 31, 2004	1,223	70	—	\$1,293
Goodwill related to acquisitions	4	27	—	31
Foreign currency translation and other adjustments	4	—	—	4
Balance at December 31, 2005	\$1,231	\$ 97	\$ —	\$1,328

(1) Includes cumulative effect of change in accounting principle.

We completed our initial impairment analysis in the first quarter of 2002 and recorded a charge of approximately \$349 (\$288 net of tax). The charge associated with the initial impairment analysis is reflected on our statements of operations as a "Cumulative Effect of Change in Accounting Principle." We completed subsequent impairment analyses in the fourth quarter of 2002 and fourth quarter of 2003 and recorded additional impairment charges. The additional charge in the fourth quarter of 2002 was approximately \$248 and the additional charge in the fourth quarter of 2003 was approximately \$297. These charges are reflected on our statement of operations as "goodwill impairment."

The impairment charges recognized in 2003 and 2002 related to certain branches that decreased in value. The factors that negatively affected the value of these branches included the following: (i) continued weakness in non-residential construction spending which negatively affected the earnings of our branches and (ii) to a lesser extent, operational weakness at some branches and increased competition for some branches. Fair values used in impairment testing were based upon valuation techniques using multiples of earnings and revenues.

We are required to review our goodwill for impairment annually as of a scheduled review date. However, if events or circumstances suggest that goodwill could be impaired, we may be required to conduct an earlier review. The scheduled review date is October 1 of each year; however, we reviewed our traffic control segment goodwill as of September 30, 2004 because

continued weakness in this segment suggested the goodwill associated with this segment may have been impaired. Based on this review, we recorded an impairment charge of approximately \$139 to write-off the remaining goodwill associated with our traffic control segment. This charge is reflected on our statements of operations as "goodwill impairment."

Other intangible assets primarily consist of customer relationships and non-compete agreements. Intangible assets were comprised of the following at December 31, 2005, 2004 and 2003:

	Average Remaining Amortization Period		As of December 31, 2005		
	2005	2004	Gross	Accumulated	Net
			Carrying Amount	Amortization	Amount
Non-compete agreements	18 months	28 months	\$21	\$18	\$ 3
Customer relationships	9 years	10 years	\$40	\$10	\$30

	As of December 31, 2004			As of December 31, 2003		
	Gross	Accumulated	Net	Gross	Accumulated	Net
	Carrying Amount	Amortization	Amount	Carrying Amount	Amortization	Amount
Non-compete agreements	\$21	\$16	\$ 5	\$18	\$15	\$ 3
Customer relationships	\$39	\$ 7	\$32	\$28	\$ 4	\$24

Amortization expense for other intangible assets was \$5, \$4, \$6 and \$5 for the years ended December 31, 2005, 2004, 2003 and 2002, respectively.

As of December 31, 2005, estimated amortization expense for other intangible assets for each of the next five years and thereafter is as follows:

2006	\$ 4
2007	4
2008	4
2009	4
2010	4
Thereafter	13
	\$33

6. Restructuring Charges

We recorded restructuring charges of \$28 (including a non-cash component of approximately \$3) and \$29 (including a non-cash component of approximately \$11) in 2002 and 2001, respectively. The 2002 charge involved the following principal elements: (i) 40 underperforming branches and five administrative offices were closed or consolidated with other locations; (ii) the reduction of the Company's workforce by 412 through the termination of branch and administrative personnel, and (iii) an information technology project was abandoned. The 2001 charge involved the following principal elements: (i) 31 underperforming branches were closed or consolidated with other locations, (ii) five administrative offices were closed or consolidated with other locations, (iii) the reduction of the Company's workforce by 489 through the termination of branch and administrative personnel, and (iv) certain information technology hardware and software was written-off.

The costs to vacate facilities primarily represent the payment of obligations under leases, partially offset by estimated sublease opportunities, the write-off of capital improvements made to such facilities and the write-off of related goodwill (only in 2001). The work-force reduction costs primarily represent severance. The information technology costs represent the payment of obligations under equipment leases relating to the abandonment of certain information technology projects. In connection with our restructuring initiatives, we generally redeploy most of the rental equipment from the closed branches to continuing branches with the expectation that the redeployed equipment will generate stronger results (i.e., higher equipment utilization). In connection with these activities, the continuing branches that absorb the redeployed fleet generally incur incremental operating costs as a result of having larger operations and/or requiring additional personnel. Because we have not historically tracked these items and because we have a mobile fleet with equipment being frequently transferred or shared among branches, it is not possible to quantify the true "cost savings" from these restructurings.

The aggregate balance of the restructuring reserves was \$5, \$8 and \$17 as of December 31, 2005, 2004 and 2003, respectively. We estimate that approximately \$2 of the amount accrued at December 31, 2005 will be spent during 2006 and approximately \$3 will be spent in subsequent periods.

The restructuring and asset impairment charges in the consolidated statements of operations were \$-, \$(1), \$-, and \$28 in 2005, 2004, 2003 and 2002, respectively. Detailed information related to restructuring program activity during each of the four years in the period ended December 31, 2005 is outlined below.

	Costs to vacate facilities	Workforce reduction costs	Information technology costs	Total
Balance at December 31, 2001	\$ 3	\$ 2	\$ 2	\$ 7
Restructuring provision	24	3	1	28
Cash payments charged against reserve	(2)	(2)	(1)	(5)
Other non-cash charges against reserves	(3)	—	—	(3)
Balance at December 31, 2002	22	3	2	27
Cash payments charged against reserve	(7)	(2)	(1)	(10)
Balance at December 31, 2003	15	1	1	17
Cash payments charged against reserve	(3)	—	(1)	(4)
Reversal of excess reserves	(4)	(1)	—	(5)
Balance at December 31, 2004	8	—	—	8
Cash payments charged against reserve	(3)	—	—	(3)
Balance at December 31, 2005	\$ 5	\$—	\$—	\$ 5

7. Rental Equipment

Rental equipment consists of the following:

	December 31,		
	2005	2004	2003
Rental equipment	\$ 3,289	\$3,082	\$2,987
Less accumulated depreciation	(1,037)	(959)	(925)
Rental equipment, net	\$ 2,252	\$2,123	\$2,062

8. Property and Equipment

Property and equipment consist of the following:

	December 31,		
	2005	2004	2003
Land	\$ 65	\$ 58	\$ 49
Buildings	131	113	104
Transportation and equipment	322	301	290
Machinery and equipment	53	48	45
Furniture and fixtures	93	84	77
Leasehold improvements	90	77	75
	754	681	640
Less accumulated depreciation and amortization	(309)	(284)	(233)
Property and equipment, net	\$ 445	\$ 397	\$ 407

9. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

	December 31,		
	2005	2004	2003
Self-insurance reserve	\$ 88	\$ 81	\$ 92
Accrued compensation	72	49	27
Financial derivative instruments	54	31	4
Interest payable	45	43	49
Deferred revenue	20	20	26
Accrued benefit costs	14	15	13
Professional fees	11	8	2
Restructuring reserves	5	8	17
Other ⁽¹⁾	111	68	42
Accrued expenses and other liabilities	\$420	\$323	\$272

(1) Other includes several items, none of which are individually significant.

10. Debt

Debt consists of the following:

	December 31,		
	2005	2004	2003
Credit Facility, interest payable at a weighted average rate of 5.29, 4.81 and 5.30 percent at December 31, 2005, 2004 and 2003, respectively	\$ 137	\$ 133	\$ 52
Term Loan, interest payable at 6.63, 4.67 and 4.20 percent at December 31, 2005, 2004 and 2003, respectively	737	744	639
9½ percent Senior Subordinated Notes, interest payable semi-annually	—	—	300
9 percent Senior Subordinated Notes, interest payable semi-annually	—	—	250
7½ percent Senior Subordinated Notes, interest payable semi-annually	525	525	525
7 percent Senior Subordinated Notes, interest payable semi-annually	375	375	—
6½ percent Senior Notes, interest payable semi-annually	1,000	1,000	—
10¼ percent Senior Notes, interest payable semi-annually	—	12	861
1½ percent Convertible Senior Subordinated Notes, interest payable semi-annually	144	144	144
Other debt, including capital leases, interest payable at various rates ranging from 5 percent to 10 percent at December 31, 2005, 2004 and 2003, due through 2009	12	12	46
	\$2,930	\$2,945	\$2,817

Transactions Completed in 2004

We refinanced approximately \$2.1 billion of debt in 2004 (“the Refinancing”). The Refinancing extended debt maturities, reduced interest expense going forward and provided the Company with greater financial flexibility. As part of the Refinancing, the Company:

- amended and restated URI’s senior secured credit facility (“New Credit Facility”) to replace URI’s previous \$1.3 billion senior secured credit facility;
- sold \$1 billion of URI’s 6½ percent Senior Notes Due 2012;
- sold \$375 of URI’s 7 percent Senior Subordinated Notes Due 2014;
- repaid \$639 of term loans and \$52 of borrowings that were outstanding under the old credit facility;
- repurchased \$845 principal amount of URI’s 10¼ percent Senior Notes Due 2008 (the “10¼ percent Notes”), pursuant to a tender offer;
- redeemed \$300 principal amount of URI’s outstanding 9¼ percent Senior Subordinated Notes Due 2009 (the “9¼ percent Notes”); and

- redeemed \$250 principal amount of URI’s outstanding 9 percent Senior Subordinated Notes Due 2009 (the “9 percent Notes”).

The Refinancing was completed during the first quarter of 2004, except that (i) the redemption of the 9 percent Notes was completed on April 1, 2004 and a portion of the term loan that is part of the New Credit Facility was drawn on such date and (ii) an additional \$4 of the 10¼ percent Notes were repurchased on April 7, 2004.

In connection with the Refinancing, the Company incurred aggregate charges of approximately \$171. These charges were attributable primarily to (i) the redemption and tender premiums for notes redeemed or repurchased as part of the Refinancing and (ii) the write-off of previously capitalized costs relating to the debt refinanced. These charges were recorded in other (income) expense, net.

7 percent Senior Subordinated Notes. In January 2004, as part of the Refinancing described above, URI issued \$375 aggregate principal amount of 7 percent Senior Subordinated Notes (the “7 percent Notes”) which are due February 15, 2014. The net proceeds from the sale of the 7 percent Notes were approximately \$369, after deducting offering expenses. The 7 percent Notes are unsecured and are guaranteed by Holdings and, subject to limited exceptions, URI’s domestic subsidiaries. The 7 percent Notes mature on February 15, 2014 and may be redeemed by URI on or after February 15, 2009, at specified redemption prices that range from 103.5 percent in 2009 to 100.0 percent in 2012 and thereafter. In addition, on or prior to February 15, 2007, URI may, at its option, use the proceeds of public equity offerings to redeem up to an aggregate of 35 percent of the outstanding 7 percent Notes at a redemption price of 107.0 percent. The indenture governing the 7 percent Notes contains certain restrictive covenants, including limitations on (i) additional indebtedness, (ii) restricted payments, (iii) liens, (iv) dividends and other payments, (v) preferred stock of certain subsidiaries, (vi) transactions with affiliates, (vii) the disposition of proceeds of asset sales and (viii) the Company’s ability to consolidate, merge or sell all or substantially all of its assets.

6½ percent Senior Notes. In February 2004, as part of the Refinancing described above, URI issued \$1 billion aggregate principal amount of 6½ percent Senior Notes (the “6½ percent Notes”) which are due February 15, 2012. The net proceeds from the sale of the 6½ percent Notes were approximately \$985, after deducting offering expenses. The 6½ percent Notes are unsecured and are guaranteed by Holdings and, subject to limited exceptions, URI’s domestic subsidiaries. The 6½ percent Notes mature on February 15, 2012 and may be redeemed by URI on or after February 15, 2008, at specified redemption prices that range from 103.25 percent in 2008 to 100.0 percent in 2010 and thereafter. In addition, on or prior to February 15, 2007, URI may, at its option, use the proceeds of public equity offerings to redeem up to an aggregate of 35 percent of the outstanding 6½ percent Notes at a redemption price of 106.5 percent.

The indenture governing the 6½ percent Notes contains certain restrictive covenants, including limitations on (i) additional indebtedness, (ii) restricted payments, (iii) liens, (iv) dividends and other payments, (v) preferred stock of certain subsidiaries, (vi) transactions with affiliates, (vii) the disposition of proceeds of asset sales, (viii) the Company's ability to consolidate, merge or sell all or substantially all of its assets and (ix) sale-leaseback transactions.

New Credit Facility. In the first quarter of 2004, as part of the Refinancing described above, the Company amended and restated URI's senior secured credit facility. The amended and restated facility includes (i) a \$650 revolving credit facility, (ii) a \$150 institutional letter of credit facility and (iii) a \$750 term loan. The revolving credit facility, institutional letter of credit facility and term loan are governed by the same credit agreement. URI's obligations under the credit facility are guaranteed by Holdings and, subject to limited exceptions, URI's domestic subsidiaries and are secured by liens on substantially all of the assets of URI, Holdings and URI's domestic subsidiaries. Set forth below is certain additional information concerning the amended and restated facility.

Revolving Credit Facility. The revolving credit facility enables URI to borrow up to \$650 on a revolving basis and enables certain of the Company's Canadian subsidiaries to borrow up to \$150 (provided that the aggregate borrowings of URI and the Canadian subsidiaries may not exceed \$650). A portion of the revolving credit facility, up to \$250, is available for issuance of letters of credit. The revolving credit facility is scheduled to mature and terminate in February 2009. As of December 31, 2005 and 2004, the outstanding borrowings under this facility were approximately \$137 and \$133, respectively, and utilized letters of credit were \$64 and \$50, respectively. All outstanding borrowings under the revolving credit facility at December 31, 2005 and December 31, 2004 were Canadian subsidiary borrowings.

U.S. dollar borrowings under the revolving credit facility accrue interest, at the option of URI's Canadian subsidiaries, at either (a) the ABR rate (which is equal to the greater of (i) the Federal Funds Rate plus 0.5 percent and (ii) JPMorgan Chase Bank's prime rate) plus a margin of 1.25 percent, or (b) an adjusted LIBOR rate plus a maximum margin of 2.25 percent.

Canadian dollar borrowings under the revolving credit facility accrue interest, at the borrower's option, at either (a) the Canadian prime rate (which is equal to the greater of (i) the CDOR rate plus 1 percent and (ii) JPMorgan Chase Bank, Toronto Branch's prime rate) plus a margin of 1.25 percent, or (b) the B/A rate (which is equal to JPMorgan Chase Bank, Toronto Branch's B/A rate) plus a maximum margin of 2.25 percent. The rate applicable to Canadian borrowings outstanding under the revolving credit facility was 5.29 and 4.81 at December 31, 2005 and 2004, respectively.

URI is also required to pay the lenders a commitment fee equal to 0.5 percent per annum, payable quarterly, in respect of undrawn commitments under the revolving credit facility.

Institutional Letter of Credit Facility ("ILCF"). The ILCF provides for up to \$150 in letters of credit. The ILCF is in addition to the letter of credit capacity under the revolving credit facility. The total combined letter of credit capacity under the revolving credit facility and the ILCF is \$400. Subject to certain conditions, all or part of the ILCF may be converted into term loans. The ILCF is scheduled to terminate in February 2011. As of both December 31, 2005 and 2004, the outstanding letters of credit under the ILCF were approximately \$150.

URI is required to pay a fee which accrues at the rate of 0.1 percent per annum on the amount of the ILCF. In addition, URI is required to pay participation and other fees in respect of letters of credit. For letters of credit obtained under both the ILCF and the revolving credit facility, these fees accrue at the rate of 2.25 percent per annum. In May 2005, based on the Company's first quarter 2005 funded debt to cash flow ratio, the participation fee was reduced to 2.0 percent.

Term Loan. The term loan was obtained in two draws. An initial draw of \$550 was made upon the closing of the credit facility in February 2004 and an additional draw of \$200 was made on April 1, 2004. Amounts repaid in respect of the term loan may not be reborrowed.

The term loan must be repaid in installments as follows: (i) during the period from and including June 30, 2004 to and including March 31, 2010, URI must repay on each March 31, June 30, September 30 and December 31 of each year an amount equal to one-fourth of 1 percent of the original aggregate principal amount of the term loan and (ii) URI must repay on each of June 30, 2010, September 30, 2010, December 31, 2010, and at maturity on February 14, 2011 an amount equal to 23.5 percent of the original aggregate principal amount of the term loan. As of December 31, 2005 and 2004, amounts outstanding under the term loan were approximately \$737 and \$744, respectively.

Borrowings under the term loan accrue interest, at URI's option, at either (a) the ABR rate plus a maximum margin of 1.25 percent, or (b) an adjusted LIBOR rate plus a maximum margin of 2.25 percent. The rate was 6.63 and 4.67 at December 31, 2005 and 2004, respectively.

Covenants. Under the agreement governing the New Credit Facility, the Company is required to, among other things, satisfy certain financial tests relating to: (a) interest coverage ratio, (b) the ratio of funded debt to cash flow, (c) the ratio of senior secured debt to tangible assets and (d) the ratio of senior secured debt to cash flow. If the Company is unable to satisfy any of these covenants, the lenders could elect to terminate the credit facility and require the Company to

repay the outstanding borrowings under the credit facility. The Company is also subject to various other covenants under the agreements governing its credit facility and other indebtedness. These covenants require the Company to timely file audited annual and quarterly financial statements with the SEC and limit or prohibit, among other things, the Company's ability to incur indebtedness, make prepayments of certain indebtedness, pay dividends, make investments, create liens, make acquisitions, sell assets and engage in mergers and acquisitions. If at any time an event of default under the New Credit Facility exists, the interest rate applicable to each revolving and term loan will be based on the highest margins above plus 2 percent.

Transactions Completed in 2005

Matters Relating to Consent Solicitation: In 2005, the Company successfully solicited consents for amendments to the indentures governing the following securities:

- 6½ percent Senior Notes due 2012
- 7¼ percent Senior Subordinated Notes due 2013
- 7 percent Senior Subordinated Notes due 2014
- 1⅞ percent Convertible Senior Subordinated Notes due 2023 ("Convertible Notes")
- 6½ percent Convertible Quarterly Income Preferred Securities due 2028 ("QUIPs")

The indentures for these securities require annual and other periodic reports to be filed with the SEC. On September 19, 2005, the Company obtained consents from holders of these securities and entered into supplemental indentures amending the applicable covenants to allow the Company until March 31, 2006 to comply with the requirement to make timely SEC filings (and waiving related defaults that occurred prior to the effectiveness of the amendments). In addition, the supplemental indenture relating to the Convertible Notes changed the conversion rate from 38.9520 to 44.9438 shares of United Rentals common stock for each \$1,000 ("one thousand dollars") principal amount of Convertible Notes. Pursuant to the terms of the consent solicitation, the Company paid aggregate consent fees of approximately \$34 to holders of its nonconvertible notes and QUIPs. These costs are being amortized through the maturity dates of the nonconvertible notes and QUIPs securities. Amortization expense recorded in 2005 for these costs was \$1.

In March 2005, the Company successfully obtained its lenders' consent to an amendment to the New Credit Facility that waived the covenant violation from the delay in making certain SEC filings and extended the Company's deadline to make SEC filings until June 29, 2005 for our 2004 Annual Report on Form 10-K and until August 15, 2005 for our first quarter 2005 Form 10-Q. In June 2005, the Company successfully obtained its lenders' consent to an amendment to the New Credit Facility that waived the covenant violation from the delay in making certain SEC filings and extended the Company's deadline to make SEC filings until December 31, 2005 for our

2004 Annual Report on Form 10-K and for our 2005 Form 10-Qs. Both of these consents were obtained without the payment of any consent fees. In November 2005, the Company successfully obtained its lenders' consent to an amendment to the New Credit Facility that waived the covenant violation from the delay in making certain SEC filings and extended the Company's deadline to make SEC filings until March 31, 2006. Consent fees in the amount of \$1 were paid to the lenders under the New Credit Facility.

On March 31, 2006, the Company obtained its lenders' consent to an additional amendment to the New Credit Facility that (1) waived the covenant violation from the delay in making certain SEC filings, (2) extended the Company's deadline to make its SEC filings until April 28, 2006 and (3) limited the Company's ability to borrow under the New Credit Facility to amounts necessary to fund obligations to be paid in the ordinary course during the one-week period following the applicable borrowing until these SEC filings are made.

Accounts Receivable Securitization: On May 31, 2005, we obtained a new \$200 accounts receivable securitization facility and terminated our then existing \$250 accounts receivable securitization facility. The new facility provides for generally lower borrowing costs than the old facility. In addition, the new facility provides for a substantially longer term, with the scheduled termination date being May 29, 2009, compared with September 30, 2006 under the old facility. There were no outstanding borrowings under the old facility at the time it was terminated. In connection with terminating the old facility, we incurred a charge of approximately \$1, representing the write-off of previously capitalized costs relating to the old facility.

The new facility enables one of our subsidiaries to borrow up to \$200 against a collateral pool of eligible accounts receivable. Consistent with the old facility, the borrowings under the new facility will be reflected as debt on our consolidated balance sheets and the receivables in the collateral pool will be reflected as assets on our consolidated balance sheets. However, such assets are only available to satisfy the obligations of the borrower subsidiary, and once the obligations of the borrower subsidiary are satisfied, the remaining assets will be available to be dividended to the parent.

Key terms of this facility include:

- borrowings may be made only to the extent that the face amount of the receivables in the collateral pool exceeds the outstanding loans by a specified amount;
- the facility is structured so that the receivables in the collateral pool are the lenders' only source of repayment;
- prior to expiration or early termination of the facility, amounts collected on the receivables may, subject to certain conditions, be retained by the borrower, provided that the remaining receivables in the collateral pool are sufficient to secure the then outstanding borrowings;

- after expiration or early termination of the facility, no new amounts will be advanced under the facility and collections on the receivables securing the facility will be used to repay the outstanding borrowings; and
- the facility contains standard termination events including, without limitation, a termination event if (i) the long-term senior secured rating of URI falls below either B+ from Standard & Poor's Rating Services ("S&P") or B2 from Moody's Investors Service ("Moody's") or (ii) our New Credit Facility is terminated. At March 31, 2006, the Company's long-term senior secured debt was rated BB- by S&P and B2 by Moody's.

Outstanding borrowings under the facility generally accrue interest at the commercial paper rate plus a specified spread not to exceed 1.0 percent. There were no outstanding borrowings under this facility at December 31, 2005. We are also required to pay a commitment fee based on the long-term senior secured ratings of URI. This commitment fee was 0.55 percent at December 31, 2005.

Redemption of remaining 10% Senior Notes: In April 2005, the Company redeemed \$12 principal amount of URI's 10% Senior Notes due 2008 (the "10% Notes"). The principal repurchased represented the amounts of the 10% Notes still outstanding after the 2004 tender offer. In connection with this redemption, the Company incurred charges of approximately \$1. These charges were attributed primarily to (i) the redemption for notes redeemed and (ii) the write-off of previously capitalized costs. These charges were recorded in other (income) expense, net.

Loan Covenants and Compliance

As of December 31, 2005 and 2004, we were in compliance with the covenants of the 7 percent Notes and the 6½ percent Notes, as amended, as discussed above, as well as the covenants of our 7¼ percent Senior Subordinated Notes due 2013, Convertible Notes due 2023, the QUIPs and the New Credit Facility. As discussed above (see "Transactions Completed in 2005—Matters Relating to Consent Solicitations"), on September 19, 2005, we amended the indentures governing the above-described securities and our New Credit Facility to allow the Company until March 31, 2006 to comply with the requirement to make timely SEC filings. As described above, on March 31, 2006 the Company obtained its lenders' consent to the New Credit Facility that extended the Company's deadline to make its SEC filings until April 28, 2006.

As of March 31, 2006 we have filed our annual reports on Form 10-K for the years ended December 31, 2004 and 2005; however we have not yet filed any of our quarterly reports on Form 10-Q for the periods ended in 2005. Therefore, as of March 31, 2006, we are in violation of the amendments to our indentures due to not filing our quarterly reports (see "Risk Factors— We will be unable to file our delinquent quarterly reports on Form 10-Q by the end of the extension period granted by holders of our bonds, which will give our bondholders the right to declare an event of default.")

The Company is currently in compliance with the New Credit Facility, as amended, as of March 31, 2006. However, if the Company were not to file the required SEC reports by April 28, 2006, the Company would be required to obtain an additional extension or be in immediate default under the New Credit Facility. If the Company's bondholders declare an event of default under any of the Company's indentures, the waiver of default contained in the March 31, 2006 amendment will nevertheless continue until April 28, 2006. In addition, the amendment to our New Credit Facility limits our ability to make borrowings as discussed above.

At December 31, 2005 and 2004, we were in full compliance with all our financial covenants in the New Credit Facility and the indentures governing our notes and convertible securities. We consider our most restrictive covenant to be the Minimum Interest Coverage ratio. The minimum amount permitted under this covenant is as follows:

Period	Ratio
June 30, 2004 through December 31, 2004	1.35 to 1.0
January 1, 2005 through December 31, 2005	1.45 to 1.0
January 1, 2006 and thereafter	1.65 to 1.0

Our actual minimum interest coverage ratios for the years ended December 31, 2005 and 2004 were 2.22 and 2.06, respectively.

Interest Rate Swap and Cap Agreements. As of December 31, 2005 and December 31, 2004, we had swap agreements with an aggregate notional amount of \$1.2 billion. The effect of these agreements was to convert \$1.2 billion of our fixed rate notes to floating rate instruments. The fixed rate notes being converted consisted of: (i) \$445 of our 6½ percent Notes, (ii) \$375 of our 7¼ percent Senior Subordinated Notes through 2013 and (iii) \$375 of our 7 percent Notes. Our swap agreements that convert our fixed rate notes to floating rate instruments are designated as fair value hedges. Changes in the fair values of our fair value hedges, as well as the offsetting fair value changes in the hedged items, are recorded on the statements of operations. There was no ineffectiveness related to our fair value hedges. As of December 31, 2005 and 2004, we had an unrealized loss of \$54 and \$31, respectively, based upon the fair value of our fair value hedges.

As of December 31, 2005 and 2004, we had interest rate cap agreements that effectively limit the interest rate on \$725 of our term loan. Our cap agreements are designated as cash flow hedges. Changes in the fair values of our cash flow hedges are recorded in other comprehensive income and reclassified into earnings in the same periods during which the hedged transactions affect earnings. There was no ineffectiveness related to our cash flow hedges. As of December 31, 2005 and 2004, we had an unrealized gain of \$2 and an unrealized loss of \$4, respectively, based upon the fair value of our cash flow hedges.

Maturities. Maturities of the Company's debt for each of the next five years and thereafter at December 31, 2005 are as follows:

2006	\$ 27
2007	25
2008	20
2009	152
2010	535
Thereafter	2,171
Total	\$2,930

11. Income Taxes

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

	Year ended December 31,			
	2005	2004	2003	2002
Domestic federal:				
Current	\$ 5	\$ —	\$ —	\$—
Deferred	88	1	(46)	(1)
	93	1	(46)	(1)
Domestic state:				
Current	2	2	—	1
Deferred	17	(12)	(8)	—
	19	(10)	(8)	1
Total domestic	112	(9)	(54)	—
Foreign federal:				
Current	2	2	2	2
Deferred	5	1	1	(2)
	7	3	3	—
Foreign provincial:				
Current	1	—	—	—
Deferred	3	2	2	1
	4	2	2	1
Total foreign	11	5	5	1
	\$123	\$ (4)	\$(49)	\$ 1

A reconciliation of the provision for income taxes and the amount computed by applying the statutory federal income tax rate of 35 percent to income (loss) before provision for income taxes and cumulative effect of change in accounting principle is as follows:

	Year ended December 31,			
	2005	2004	2003	2002
Computed tax at statutory tax rate	\$109	\$(31)	\$(106)	\$(41)
State income taxes, net of federal tax benefit	12	(7)	(2)	1
Non-deductible goodwill impairment charges	—	33	47	42
Other ⁽¹⁾	2	1	12	(1)
	\$123	\$ (4)	\$(49)	\$ 1

(1) 2003 includes nondeductible executive deferred compensation of \$5.

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

	December 31,		
	2005	2004	2003
Intangibles	\$ 5	\$ 41	\$ 55
Reserves and allowances	86	81	77
Net operating loss and credit carryforwards ⁽¹⁾	189	295	248
Other	12	9	5
Total Deferred Income Tax Assets	292	426	385
Property and equipment	\$(554)	\$(575)	\$(548)
Total Deferred Income Tax Liabilities	(554)	(575)	(548)
	\$(262)	\$(149)	\$(163)

(1) Includes valuation allowance related to state net operating loss carryforwards of \$8, \$8 and \$7, respectively.

The deferred tax assets and liabilities at December 31, 2004 include the effects of certain reclassifications related to differences between the income tax provisions and tax returns for prior years. These reclassifications had no effect on net income. In addition to the deferred tax liabilities described above, we have reserves for certain tax-related matters resulting from our acquisitions.

For financial reporting purposes, income before income taxes and cumulative effect of change in accounting principle for our foreign subsidiaries was \$34, \$20 and \$5 for the years ended December 31, 2005, 2004 and 2003, respectively. At December 31, 2005, 2004, and 2003, unremitted earnings (deficit) of foreign subsidiaries were approximately \$36, \$14 and \$(1), respectively. Since it is our intention to indefinitely reinvest these earnings, no United States taxes have been provided for these amounts. Determination of the amount of unrecognized deferred tax liability on these unremitted taxes is not practicable.

We have net operating loss carryforwards ("NOLs") of \$402 for federal income tax purposes that expire through 2024. We have not recorded a valuation allowance against this deferred tax asset because it is deemed more likely than not that such benefit will be realized in the future.

12. Subordinated Convertible Debentures

The subordinated convertible debentures included in our consolidated balance sheets reflect the obligation to our subsidiary that has issued preferred securities. This subsidiary is not consolidated in our financial statements because we are not the primary beneficiary of the trust. As of December 31, 2005, 2004 and 2003, the aggregate amount of subordinated convertible debentures outstanding was \$222.

In August 1998, a subsidiary trust (the "Trust") of Holdings issued and sold in a private offering (the "Preferred Securities Offering") \$300 of QUIPs. The Trust used the proceeds from the Preferred Securities Offering to purchase 6½ percent convertible subordinated debentures due 2028 (the "Debentures") which resulted in Holdings receiving all of the net proceeds of the Preferred Securities Offering. Holdings in turn contributed the net proceeds of the Preferred Securities Offering to URI. The QUIPs are non-voting securities, carry a liquidation value of \$50 ("fifty dollars") per security and were convertible into the Company's common stock at an initial rate of 1.146 shares per security (equivalent to an initial conversion price of \$43.63 per share).

Holder of the QUIPs are entitled to preferential cumulative cash distributions from the Trust at an annual rate of 6½ percent of the liquidation value, accruing from the original issue date and payable quarterly in arrears beginning February 1, 1999. The distribution rate and dates correspond to the interest rate and payment dates on the Debentures. Holdings may defer interest payments on the Debentures for up to twenty consecutive quarters, but not beyond the maturity date of the Debentures. If interest payments on the Debentures are deferred, so are the payments on the QUIPs. Under this circumstance, Holdings will be prohibited from paying dividends on any of its capital stock or making payments with respect to its debt that rank *pari passu* with or junior to the Debentures.

Holdings has executed a guarantee with regard to payment of the QUIPs to the extent that the Trust has insufficient funds to make the required payments.

13. Preferred Stock

As of December 31, 2005, 2004 and 2003, we have two classes of preferred stock outstanding. In total, we are authorized to issue 5 million shares of preferred stock, \$0.01 par value, of which an aggregate of 450,000 have been issued.

Series C Preferred and Series D Preferred. There are 300,000 shares of our Series C Preferred outstanding and 150,000 shares of our Series D Preferred outstanding. The Series D Preferred includes 105,252 shares designated as Class D-1 and 44,748 shares designated as Class D-2. The rights of the two classes of Series D Preferred are substantially the same, except that only the Class D-1 has the voting rights described below.

Principal terms of the Series C Preferred and Series D Preferred include the following (subject to the special provisions described below that will apply in the event of certain Non-Approved Change of Control transactions): (i) each share is entitled to a liquidation preference of \$1,000 per share; (ii) at the holder's option, each share of Series C Preferred is convertible into 40 shares of common stock subject to adjustment (representing a conversion price of \$25 per share based on the liquidation preference) and each share of Series D Preferred is convertible into 33⅓ shares of common stock subject to adjustment (representing a conversion price of \$30 per share based on the liquidation preference); (iii) the holders of the Series C Preferred and Series D Preferred (on an as converted basis) and the holders of the common stock vote together as a single class on all matters (except that the Series C Preferred may vote as a separate class as described in the next clause); (iv) the holders of the Series C Preferred, voting separately as a single class, may elect two directors (subject to reduction to one, if the shares of Series C Preferred owned by specified holders cease to represent, on an as converted basis, at least eight million shares of common stock, and reduction to zero, if such shares of Series C Preferred cease to represent at least four million shares of common stock), (v) there are no stated dividends on the Series C Preferred or Series D Preferred, but the Series C Preferred and Series D Preferred, on an as converted basis, will participate in any dividends declared on the common stock, (vi) upon the occurrence of specified change of control transactions, other than a Non-Approved Change of Control (as defined below), we must offer to redeem the Series C Preferred and Series D Preferred at a price per share equal to the liquidation preference plus an amount

equal to 6.25 percent of the liquidation preference compounded annually from January 1999 in the case of the Series C Preferred, and September 1999 in the case of the Series D Preferred, to the redemption date, (vii) if we issue for cash common stock (or a series of preferred stock convertible into common stock) and the price for the common stock is below the conversion price of the Series C Preferred, then we must offer to repurchase a specified portion of the outstanding Series C Preferred at the price per share set forth in the preceding clause, and (viii) if we issue for cash common stock (or a series of preferred stock convertible into common stock) for a price for the common stock below the conversion price of the Series D Preferred, then we must offer to repurchase a specified portion of the outstanding Series D Preferred at the price per share specified in the second preceding clause.

Special Rights of Series C Preferred and Series D Preferred Upon Non-Approved Change of Control. In general, a Non-Approved Change of Control transaction is a change of control transaction that the Board of Directors (the "Board") has disapproved and which the Board has not facilitated by such actions as weakening or eliminating the Company's Stockholder Rights Plan. If a Non-Approved Change of Control occurs, and the Board does not offer the holders of the Series C Preferred and Series D Preferred essentially the same redemption rights that apply to an Approved Change of Control transaction: (i) the holders of the Series C Preferred would elect a majority of the Board for a specified period, (ii) the holders of the Series C Preferred and Series D Preferred would be entitled to an additional 6.25 percent return on the liquidation preference, compounded annually from January 1999 for the Series C Preferred and from September 1999 for the Series D Preferred, (iii) after the holders of the common stock receive an amount equivalent to the liquidation preference, the holders of the Series C Preferred and Series D Preferred would share with the holders of the common stock, on an as converted basis, in any remaining amounts available for distribution, and (iv) the Series C Preferred and Series D Preferred would accrue dividends at a maximum annual rate, compounded annually, equal to 18 percent of the liquidation preference.

14. Capital Stock

Warrants. As of December 31, 2005, 2004 and 2003, there were outstanding warrants to purchase an aggregate of 5.8, 6.9 and 7.0 million shares of common stock, respectively. The weighted average exercise price of the warrants was \$12.03, \$11.74 and \$11.78 per share, as of December 31, 2005, 2004 and 2003, respectively. The warrants may be exercised through 2011 and warrants to purchase 5.8, 6.9 and 7.0 million shares were exercisable as of December 31, 2005, 2004 and 2003, respectively.

Common Stock Repurchase Program. The Board has authorized a repurchase program under which the Company may, from time to time, repurchase shares of its common stock or securities convertible into its common stock. Under this program, the Company was given authority to make up to \$200 of purchases, during the period from May 2000 to May 2003 and up to \$200 of additional purchases during the period from May 2003 to March 2005. Pursuant to this program, the Company (i) during 2001, repurchased and retired 1.4 million shares of common stock at an aggregate cost of approximately \$25, (ii) during 2002, repurchased and retired 1.1 million shares of common stock and repurchased 1.5 million shares of our Preferred Securities at an aggregate cost of approximately \$65 for all the 2002 repurchases, and (iii) during 2003, repurchased 100,000 shares of our Preferred Securities at an aggregate cost of approximately \$4.

2001 Senior Stock Plan. In June 2001, our shareholders approved the adoption of the 2001 Senior Stock Plan. This plan provides for the awarding of common stock and other equity-linked awards to our officers, directors and a limited number of key employees. The maximum number of shares of common stock that can be issued under the plan is 4 million. The Company records each share that is awarded under this plan at an amount that is not less than 100 percent of the fair market value per share at the date of the award. No shares may be awarded under this plan after June 5, 2011. As of December 31, 2005 and 2004, 2.4 and 2.3 million shares, respectively, had been awarded under this plan at a weighted-average price of \$21.94 and \$21.97 per share, respectively, with vesting periods up to ten years. Determinations concerning the persons to receive awards, the form, amount and timing of such awards and terms and provisions of such awards are made by the Board (or a committee appointed by the Board).

2001 Stock Plan. In March 2001, we adopted the 2001 Stock Plan. This plan provides for the awarding of common stock and other equity-linked awards to certain employees (other than officers and directors) and others who render services to the Company. The maximum number of shares of common stock that can be issued under the plan is 2 million. The Company records each share that is awarded under this plan at an amount that is not less than 100 percent of the fair market value per share at the date of the award. No shares may be awarded under this plan after March 23, 2011. As of December 31, 2005 and 2004, 1.8 million shares had been awarded under this plan at a weighted-average price of \$16.28 and \$16.27 per share, respectively, with vesting periods up to three and one-half years. Determinations concerning the persons to receive awards, the form, amount and timing of such awards and terms and provisions of such awards are made by the Board (or a committee appointed by the Board).

We recognized compensation expense for the issuance of common shares under the 2001 Senior Stock Plan and the 2001 Stock Plan based on the quoted market price on the date of the grants. Amortization of deferred compensation is then recognized on a straight-line basis over the related vesting period. Amortization expense recognized for the years ended December 31, 2005, 2004 and 2003 for the awards in these plans was approximately \$9, \$20 and \$26, respectively

1997 Stock Option Plan. Our 1997 Stock Option Plan provides for the granting of options to purchase not more than an aggregate of 5 million shares of common stock. Some or all of such options may be “incentive stock options” within the meaning of the Internal Revenue Code. All of our officers, directors and employees and other persons who perform services on our behalf are eligible to participate in this plan. Each option granted pursuant to this plan must provide for an exercise price per share that is at least equal to the fair market value per share of common stock on the date of grant. No options may be granted under this plan after August 31, 2007. As of December 31, 2005, 2004 and 2003, options to purchase an aggregate of 3.5, 3.8 and 3.9 million shares of common stock, respectively, were outstanding under this plan. The exercise price of each option, the period during which each option may be exercised and other terms and conditions of each option are determined by the Board (or by a committee appointed by the Board).

1998 Stock Option Plan. Our 1998 Stock Option Plan provides for the granting of options to purchase not more than an aggregate of 4.0 million shares of common stock. Some or all of the options issued under the 1998 Stock Option Plan may be “incentive stock options” within the meaning of the Internal Revenue Code. All officers, directors and a limited number of key employees of the Company and its subsidiaries are eligible to participate in the 1998 Stock Option Plan. Each option granted pursuant to the 1998 Stock Option Plan must provide for an exercise price per share that is at least equal to the fair market value per share of common stock on the date of grant.

No options may be granted under the 1998 Stock Option Plan after August 20, 2008. As of December 31, 2005, 2004 and 2003, options to purchase an aggregate of 2.0, 2.3 and 2.3 million shares, respectively, were outstanding pursuant to this plan to executive officers and directors. The exercise price of each option, the period during which each option may be exercised and other terms and conditions of each option are determined by the Board (or by a committee appointed by the Board).

1998 Supplemental Stock Option Plan. We adopted a stock option plan pursuant to which options, for up to an aggregate of 5.6 million shares of common stock, may be granted to employees (who are not officers or directors) and to consultants and independent contractors (who perform services for us or our subsidiaries). As of December 31, 2005, 2004 and 2003, options to purchase an aggregate of 3.4, 3.7 and 4.5 million shares of common stock, respectively, were outstanding pursuant to this plan. The exercise price of each option, the period during which each option may be exercised and other terms and conditions of each option are determined by the Board (or by a committee appointed by the Board).

1997 Performance Award Plan. Effective February 20, 1997, U.S. Rentals (an acquired company) adopted the 1997 Performance Award Plan under which stock options and other awards could be granted to key employees and directors at prices and terms established by U.S. Rentals at the date of grant. The options expire in 2007. As a result of our merger with U.S. Rentals, all outstanding options to purchase shares of U.S. Rentals common stock became fully vested and were converted into options to purchase our common stock. As of December 31, 2005, 2004 and 2003, options to purchase an aggregate of 1.5, 1.5 and 1.5 million shares, respectively, were outstanding pursuant to this plan.

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

	Shares	Weighted Average Exercise Price ⁽¹⁾
Outstanding at December 31, 2001	16,422,014	\$20.22
Granted	722,550	11.94
Exercised	(3,735,666)	17.32
Canceled	(812,180)	25.03
Outstanding at December 31, 2002	12,596,718	20.20
Granted	85,200	12.31
Exercised	(94,446)	12.46
Canceled	(324,798)	23.16
Outstanding at December 31, 2003	12,262,674	20.05
Granted	811,575	16.86
Exercised	(378,597)	14.12
Canceled	(1,404,473)	19.14
Outstanding as of December 31, 2004	11,291,179	19.79
Granted	157,500	18.99
Exercised	(63,365)	13.14
Canceled	(919,130)	18.46
Outstanding at December 31, 2005	10,466,184	\$19.93
Exercisable at December 31, 2004	10,931,199	\$19.98
Exercisable at December 31, 2005	10,272,936	\$19.97

As of December 31, 2005:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Amount Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price ⁽¹⁾	Amount Exercisable	Weighted Average Exercise Price ⁽¹⁾
\$ 5.00 – \$10.00	387,517	5.5	\$ 9.69	384,933	\$ 9.69
10.01 – 15.00	2,344,478	3.3	12.71	2,331,728	12.71
15.01 – 20.00	1,563,874	6.3	17.07	1,426,126	16.96
20.01 – 25.00	4,678,038	3.9	21.67	4,637,872	21.68
25.01 – 30.00	655,187	3.3	26.71	655,187	26.71
30.01 – 35.00	545,690	2.8	31.83	545,690	31.83
35.01 – 40.00	90,900	2.5	36.03	90,900	36.03
40.01 – 45.00	185,500	2.1	43.91	185,500	43.91
45.01 – 50.00	15,000	2.5	46.15	15,000	46.15
	<u>10,466,184</u>	<u>4.0</u>	<u>\$19.93</u>	<u>10,272,936</u>	<u>\$19.97</u>

(1) In actual dollars, not millions.

At December 31, 2005, 2004 and 2003 there were (i) 5.8, 6.9 and 7.0 million shares of common stock reserved for the exercise of warrants, respectively, (ii) 10.5, 11.3 and 12.3 million shares of common stock reserved for issuance pursuant to options granted under our stock option plans, respectively, (iii) 5.1 million shares of common stock reserved for the issuance of outstanding preferred securities of a subsidiary trust, (iv) 17 million shares of common stock reserved for the issuance of Series C and Series D preferred stock and (v) 6.5, 5.6 and 5.8 million shares of common stock reserved for the conversion of convertible debt, respectively.

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

15. Accumulated Other Comprehensive Income

The following table sets forth the components of the Company's accumulated other comprehensive income (loss):

	Foreign Currency Translation Adjustments	Derivatives Qualifying as Hedges	Accumulated Other Comprehensive Income/(Loss)
Balance at			
December 31, 2001	\$(22)	\$(7)	\$(29)
2002 activity	4	1	5
Balance at			
December 31, 2002	(18)	(6)	(24)
2003 activity	40	6	46
Balance at			
December 31, 2003	22	—	22
2004 activity	17	(2)	15
Balance at			
December 31, 2004	39	(2)	37
2005 activity	10	3	13
Balance at			
December 31, 2005	\$ 49	\$ 1	\$ 50

16. Earnings Per Share

Basic earnings per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding and, if dilutive, the Series C and Series D preferred shares as if converted to common shares since such shares are participating securities. Diluted earnings per share includes the impact of other diluted securities. The diluted share base for years where the numerator represents a loss excludes incremental weighted shares for the below-captioned "Effect of dilutive securities" due to their antidilutive effect. The following table sets forth the computation of basic and diluted earnings per share:

	Year Ended December 31,			
	2005	2004	2003	2002
Numerator:				
Income (loss) before cumulative effect of change in accounting principle	\$187	\$(84)	\$(254)	\$(118)
Plus: Liquidation preference in excess of amounts paid for convertible preferred securities	—	—	1	35
Convertible debt interest	2	—	—	—
QUIPs interest	9	—	—	—
Cumulative effect of change in accounting principles, net	—	—	—	(288)
Income (loss) available to common stockholders	\$198	\$(84)	\$(253)	\$(371)
Denominator:				
Weighted-average common shares	77,813,488	77,610,726	76,959,151	75,787,693
Series C preferred	12,000,000	—	—	—
Series D preferred	5,000,000	—	—	—
Denominator for basic earnings per share-weighted-average	94,813,488	77,610,726	76,959,151	75,787,693
Effect of dilutive securities:				
Employee stock options	1,286,302	—	—	—
Warrants	2,850,176	—	—	—
Convertible shares	5,842,408	—	—	—
QUIPs shares	5,077,926	—	—	—
Restricted stock units and phantom shares	165,908	—	—	—
Denominator for dilutive earnings per share—adjusted weighted-average shares	110,036,208	77,610,726	76,959,151	75,787,693
Earnings (loss) per share—basic:				
Income (loss) available to common stockholders before cumulative effect of change in accounting principle	\$1.97	\$(1.07)	\$(3.29)	\$(1.08)
Cumulative effect of change in accounting principle, net	—	—	—	(3.80)
Income (loss) available to common stockholders	\$1.97	\$(1.07)	\$(3.29)	\$(4.88)
Earnings (loss) per share—diluted:				
Income (loss) available to common stockholders before cumulative effect of change in accounting principle	\$1.80	\$(1.07)	\$(3.29)	\$(1.08)
Cumulative effect of change in accounting principle, net	—	—	—	(3.80)
Income (loss) available to common stockholders	\$1.80	\$(1.07)	\$(3.29)	\$(4.88)

17. Commitments and Contingencies

SEC Non-Public Fact Finding Inquiry and Special Committee Review

As previously announced, on August 25, 2004, the Company received a letter from the SEC in which the SEC referred to an inquiry of the Company. The letter transmitted a subpoena requesting certain of the Company's documents. The letter and the subpoena referred to an SEC investigation entitled *In the Matter of United Rentals, Inc.* The notice from the SEC states that the inquiry does not mean that the SEC has concluded that the Company or anyone else has broken the law or that the SEC has a negative opinion of any person, entity or security. As previously announced, the inquiry appears to relate to a broad range of our accounting practices and is not confined to a specific period or the matters discussed in this report.

The Company has since received additional document subpoenas from the SEC. As previously announced, in March 2005, the Company's board of directors formed a Special Committee of independent directors to review matters related to the SEC inquiry. The Special Committee retained independent counsel. The board of directors received and acted upon findings of the Special Committee on January 26, 2006. The conclusions and recommendations of the Special Committee are discussed in MD&A, and in Item 1 above and summarized in the Company's press release and the related current report on Form 8-K, dated January 26, 2006.

The Company has provided documents in response to the SEC subpoenas to the SEC or to the Special Committee, which has, in turn, provided documents to the SEC. The Company is cooperating fully with the SEC in complying with the subpoenas. The Company is also responding to the SEC's informal requests for information.

Shareholder Class Action Lawsuits and Derivative Litigation

As previously announced, following our public announcement of the SEC inquiry referred to above, three purported class action lawsuits were filed against us in the United States District Court for the District of Connecticut. The plaintiff in each of the lawsuits seeks to sue on behalf of a purported class comprised of purchasers of our securities from October 23, 2003 to August 30, 2004. The lawsuits name as the defendants our company, our chairman, our vice chairman and chief executive officer, our former president and chief financial officer, and our former corporate controller. The complaints allege, among other things, that certain of our SEC filings and other public statements contained false and misleading statements which resulted in damages to the plaintiffs and the members of the purported class when they purchased our securities. On the basis of those allegations, plaintiffs in each action assert

claims (a) against all defendants under Section 10 (b) of the Exchange Act and Rule 10b-5 promulgated thereunder, and (b) against one or more of the individual defendants under Section 20 (a) of such Act. The complaints seek unspecified compensatory damages, costs and expenses. On February 1, 2005, the Court entered an order consolidating the three actions. On November 8, 2005, the Court appointed City of Pontiac Policeman's and Fireman's Retirement System as lead plaintiff for the purported class. The consolidated action is now entitled *In re United Rentals, Inc. Securities Litigation*. The court has directed the parties to submit, by April 17, 2006, a proposed schedule for the filing of a consolidated amended complaint and responses to any amended pleading. We intend to defend against these actions vigorously.

In January 2005, an alleged shareholder filed an action in Connecticut State Superior Court, Judicial District of Norwalk/Stamford at Stamford, purportedly suing derivatively on our behalf. The action, entitled *Gregory Riegel v. John N. Milne, et al.*, names as defendants certain of our current and/or former directors and/or officers, and us as a nominal defendant. The complaint asserts, among other things, that the defendants breached their fiduciary duties to us by causing or allowing us to disseminate misleading and inaccurate information to shareholders and the market and by failing to establish and maintain adequate accounting controls, thus exposing us to damages. The complaint seeks unspecified compensatory damages, costs and expenses against the defendants. The parties to the *Riegel* action have agreed that the proceedings in this action will be stayed pending the resolution of the anticipated motions to dismiss in the purported shareholder class actions.

In November 2004, we received a letter from counsel for an alleged shareholder, raising allegations similar to the ones set forth in the derivative complaint described above and demanding that we take action in response to those allegations against certain of our current and/or former directors and/or officers. Following receipt of the letter, the board of directors formed a special committee of the board to consider the letter. In August 2005, this alleged shareholder commenced an action in Connecticut State Superior Court, Judicial District of Norwalk/Stamford at Stamford, purporting to sue derivatively on our behalf. The action, entitled *Nathan Brundridge v. Leon D. Black, et al.*, names as defendants certain of our current and/or former directors and/or officers, and names us as a nominal defendant. The complaint in this action asserts, among other things, that all of the defendants breached fiduciary obligations to us by causing or allowing us to disseminate misleading and inaccurate information to shareholders and the market, and by failing to establish and maintain adequate accounting controls, thus exposing us to damages. The complaint in this action also asserts a claim

for unjust enrichment against our chairman, our vice chairman and chief executive officer, and our former president and chief financial officer. The complaint seeks unspecified compensatory damages, equitable relief, costs and expenses against all of the defendants. The complaint also seeks an order, in connection with plaintiff's unjust enrichment claim, directing the defendants against whom that claim is asserted to disgorge certain compensation they received from us with respect to fiscal years 2001, 2002 and 2003. The parties have agreed to submit to the court, by April 17, 2006, a proposed schedule for the filing of any amended complaint and responses to the operative complaint in the action. The parties' agreement further provides that the time by which all defendants must answer, move or otherwise respond to the complaint shall be adjourned pending the parties' submission of the aforementioned schedule.

In August 2005, another alleged shareholder filed an action in the United States District Court for the District of Connecticut, purporting to sue derivatively on our behalf. The action, entitled *Natalie Gordon v. Wayland R. Hicks, et al.*, names as defendants certain of our current and/or former directors and/or officers, and names us as a nominal defendant. The complaint in this action asserts claims against each of the defendants for breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. Each of these claims is premised on, among other things, the theory that the individual defendants caused or permitted us to disseminate misleading and inaccurate information to shareholders and to the market, and failed to establish and maintain adequate accounting controls, thus exposing us to damages. The complaint also asserts (a) a claim that a former director breached fiduciary obligations by selling shares of our common stock while in possession of material, non-public information, and (b) a claim against our chairman, our vice chairman and chief executive officer, and our former president and chief financial officer for recovery of certain incentive-based compensation under section 304 of the Sarbanes-Oxley Act. The complaint seeks unspecified compensatory damages, equitable relief, restitution, costs and expenses against all of the defendants. The complaint also seeks an order declaring that the defendants against whom the section 304 claim is directed are liable under the Sarbanes-Oxley Act and directing them to reimburse us for all bonuses or other incentive-based or equity-based compensation they received for the fiscal years 1999 through 2004. The court has directed the parties to submit, on or before April 17, 2006, a proposed schedule for the filing of any amended complaint and responses to the operative complaint in the action. Pending the submission and approval of the aforementioned schedule, the court has adjourned the time by which all defendants must answer, move, or otherwise respond to the complaint in this action.

We are also a party to various other litigation matters, in most cases involving ordinary and routine claims incidental to our business. We cannot estimate with certainty our ultimate legal and financial liability with respect to such pending litigation matters. However, we believe, based on our examination of such matters, that our ultimate liability will not have

a material adverse effect on our financial position, results of operations or cash flows.

Indemnification

The Company indemnifies its officers and directors pursuant to indemnification agreements and may in addition indemnify these individuals as permitted by Delaware law. Accordingly, in connection with the purported class action lawsuit, three purported shareholder derivative lawsuits and the SEC inquiry and related review of the Special Committee described above, the Company has advanced counsel fees and other reasonable fees and expenses, actually and necessarily incurred by the present and former directors and officers who are involved, in an aggregate amount of approximately \$2.6. Each of the individuals is required to execute an undertaking to repay such expenses if he or she is finally found not to be entitled to indemnification.

Operating Leases

We lease rental equipment, real estate and certain office equipment under operating leases. Certain real estate leases require us to pay maintenance, insurance, taxes and certain other expenses in addition to the stated rental payments. Future minimum lease payments, by year and in the aggregate, for non-cancelable operating leases with initial or remaining terms of one year or more are as follows at December 31, 2005:

	Real Estate Leases	Rental Equipment Leases	Other Equipment Leases
2006	\$ 78	\$ 70	\$30
2007	73	38	20
2008	63	31	13
2009	50	9	9
2010	36	—	6
Thereafter	129	—	2
	\$429	\$148	\$80

As part of certain of our equipment operating leases, we guarantee that the value of the equipment at the end of the lease term will not be less than a specified projected residual value. The use of these guarantees helps to lower our monthly operating lease payments. We do not know at this time whether and to what extent the actual residual values may be less than the guaranteed residual values and, accordingly, cannot quantify the amount that we may be required to pay under these guarantees. If the actual residual value for all equipment subject to such guarantees were to be zero, then our maximum potential liability under these guarantees would be approximately \$26. This potential liability was not reflected on our balance sheet as of December 31, 2005, or any prior date.

Rent expense under all non-cancelable real estate, rental equipment and other equipment operating leases totaled \$174, \$158, \$176, and \$185 for the years ended December 31, 2005, 2004, 2003, and 2002, respectively. Our real estate leases provide for varying terms, including leases subject to customary escalation clauses, and include 56 leases that are on a month-to-month basis and 43 leases that provide for a remaining term of less than one year and do not provide a renewal option.

Restricted Stock Awards

We have granted to employees other than executive officers and directors approximately 567,000 shares of restricted stock that have not yet vested. The shares vest in 2006, 2007 or 2008 or earlier upon a change in control of the Company, death, disability, retirement or certain terminations of employment, and are subject to forfeiture prior to vesting on certain other terminations of employment, the violation of non-compete provisions and certain other events. If a holder of restricted stock sells his stock and receives sales proceeds that are less than a specified guaranteed amount set forth in the grant instrument, we have agreed to pay the holder the shortfall between the amount received and such specified amount; however, the foregoing only applies to sales that are made within five trading days of the vesting date. The specified guaranteed amount is (i) \$9.18 per share with respect to approximately 326,000 shares, \$17.20 per share with respect to approximately 9,000 shares, and \$27.26 per share with respect to approximately 8,000 shares scheduled to vest in 2006 and (ii) \$17.20 per share with respect to approximately 167,000 shares scheduled to vest in 2007 and (iii) \$19.86 per share with respect to approximately 57,000 shares scheduled to vest in 2008.

Employee Benefit Plans

We currently sponsor one defined contribution 401(k) retirement plan which is subject to the provisions of ERISA. We also sponsor a deferred profit sharing plan for the benefit of the full-time employees of our Canadian subsidiaries. Under these plans, we match a percentage of the participants' contributions up to a specified amount. Company contributions to the plans were \$6, \$5, \$5 and \$5 in 2005, 2004, 2003 and 2002, respectively.

Environmental Matters

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

18. Related Party

We have from time to time purchased equipment and parts from and sold equipment to Terex Corporation ("Terex") and expect to do so in 2006. One of our former directors (until June 2005) is chief executive officer, president and a director of Terex. We purchased approximately \$157, \$124, \$113 and \$63 of equipment and parts from Terex during 2005, 2004, 2003 and 2002, respectively. The increase from 2002 to 2003 was attributable to Terex's acquisition of one of the Company's existing suppliers toward the end of 2002. We also sold approximately \$7, \$12, \$1 and \$— of equipment to Terex during 2005, 2004, 2003 and 2002, respectively. As of December 31, 2005, 2004

and 2003, amounts due to Terex were \$10, \$11 and \$6 and amounts due from Terex were \$—, \$1 and \$— respectively. Certain of the minor sale-leaseback transactions that we restated for and that are discussed further in note 3 to our consolidated financial statements involved Terex. The accounting for these transactions involved irregularities.

19. Segment Information

Our current reportable segments are general rentals, traffic control and trench safety, pump and power. Prior to 2004, we had one reportable segment: general rentals. In the first quarter of 2004, we began reporting information for two reporting segments: general rentals and traffic control. In 2005, there was an additional change in our reporting segments. As a result, we now have three reporting segments: general rentals, traffic control and trench safety, pump and power.

The general rentals segment includes the rental of construction, aerial, industrial and homeowner equipment and related services and activities. The general rentals segment's customers include construction and industrial companies, manufacturers, utilities, municipalities and homeowners. The general rentals segment operates throughout the United States and Canada and has one location in Mexico. The traffic control segment includes the rental of equipment used in the management of traffic-related services and activities. The traffic control segment's customers include construction companies involved in infrastructure projects and municipalities. The traffic control segment operates in the United States. The trench safety, pump and power segment includes the rental of specialty construction products and related services. The trench safety, pump and power segment's customers include construction companies involved in infrastructure projects, municipalities and industrial companies. This segment operates in the United States and has one location in Canada.

These segments align our external segment reporting to the manner in which management evaluates and allocates resources. We evaluate segment performance based on segment operating results. The change in segments was attributable to changes in organizational structure.

The accounting policies of our segments are the same as those described in the summary of significant accounting policies in note 2 to our consolidated financial statements. Certain corporate costs, including those related to selling, finance, legal, risk management, human resources, corporate management and information technology systems, are deemed to be of an operating nature and are allocated to each of our segments based on the actual amount of costs incurred in the prior year for SG&A and equipment rental revenue generating activities.

The following table sets forth financial information by segment. Information related to our consolidated balance sheets is presented as of December 31, 2005, 2004 and 2003.

	Year Ended December 31,			
	2005	2004	2003	2002
Total revenues				
General rentals	\$3,113	\$2,709	\$2,443	\$2,375
Trench safety, pump and power	180	130	109	87
Traffic control	270	255	330	359
Total revenues	\$3,563	\$3,094	\$2,882	\$2,821
Total depreciation and amortization expense				
General rentals	412	\$ 402	\$ 361	\$ 347
Trench safety, pump and power	20	16	15	11
Traffic control	22	27	27	27
Total depreciation and amortization expense	\$ 454	\$ 445	\$ 403	\$ 385
Segment operating income				
General rentals	\$ 472	\$ 416	\$ 234	\$ 338
Trench safety, pump and power	48	31	23	22
Traffic control	(20)	(52)	4	12
Segment operating income	\$ 500	\$ 395	\$ 261	\$ 372
Total capital expenditures				
General rentals	\$ 763	\$ 590	\$ 320	\$ 495
Trench safety, pump and power	38	35	72	8
Traffic control	22	24	20	33
Total capital expenditures	\$ 823	\$ 649	\$ 412	\$ 536
Total assets				
General rentals	\$4,928	\$4,619	\$4,249	
Trench safety, pump and power	116	92	71	
Traffic control	229	171	374	
Total assets	\$5,274	\$4,882	\$4,694	

The following is a reconciliation of segment operating income to total company operating income (loss):

	Year Ended December 31,			
	2005	2004	2003	2002
Total segment profit	\$500	\$ 395	\$ 261	\$ 372
Unallocated items:				
Goodwill impairment charges	—	(139)	(297)	(248)
Restructuring and asset impairment charges	—	1	—	(28)
Consolidated operating income (loss)	\$500	\$ 257	\$ (36)	\$ 96

We operate in the United States, Canada and Mexico. Geographic area information for the years ended December 31, 2005, 2004, 2003, and 2002 is as follows, except for balance sheet information which is presented as of December 31, 2005, 2004 and 2003 only:

	Year ended December 31,			
	2005	2004	2003	2002
Revenues from external customers				
Domestic	\$3,235	\$2,844	\$2,684	\$2,659
Foreign	328	250	198	162
Total revenues from external customers	\$3,563	\$3,094	\$2,882	\$2,821
Rental equipment, net				
Domestic	\$2,037	\$1,916	\$1,906	
Foreign	215	207	156	
Total consolidated rental equipment, net	\$2,252	\$2,123	\$2,062	
Property and equipment, net				
Domestic	\$ 419	\$ 373	\$ 389	
Foreign	26	24	18	
Total consolidated property and equipment, net	\$ 445	\$ 397	\$ 407	
Goodwill and other intangible assets, net				
Domestic	\$1,214	\$1,188	\$1,359	
Foreign	147	142	80	
Total consolidated goodwill and other intangible assets, net	\$1,361	\$1,330	\$1,439	

20. Quarterly Financial Information (Unaudited)

As discussed in the Restatement Note, we have restated our originally reported 2003 results. The 2003 quarterly information below reflects the impact of those restatements. The first, second and third quarters of 2004 have been restated for a bonus accrual as well as these matters.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
For the year ended December 31, 2005:					
Total revenues	\$732	\$888	\$980	\$963	\$3,563
Gross profit	202	283	352	328	1,165
Net income	12	50	76	49	187
Income available to common stockholders					
per share—basic	\$.12	\$.53	\$.80	\$.52	\$1.97
Income available to common stockholders					
per share—diluted	\$.11	\$.48	\$.71	\$.47	\$1.80
For the year ended December 31, 2004:					
Total revenues	\$ 643	\$771	\$858	\$822	\$3,094
Gross profit	163	245	301	250	959
Goodwill impairment	—	—	139	—	139
Net income (loss)	(108)	40	(46)	30	(84)
Income (loss) available to common stockholders					
per share—basic	\$(1.39)	\$.42	\$(.58)	\$.32	\$(1.07)
Income (loss) available to common stockholders					
per share—diluted	\$(1.39)	\$.39	\$(.58)	\$.29	\$(1.07)
For the year ended December 31, 2003:					
Total revenues	\$609	\$723	\$802	\$ 748	\$2,882
Gross profit	163	222	260	137	782
Goodwill impairment	—	—	—	297	297
Net income (loss)	(3)	23	33	(307)	(254)
Income (loss) available to common stockholders					
per share—basic	\$(.04)	\$.24	\$.36	\$(3.97)	\$(3.29)
Income (loss) available to common stockholders					
per share—diluted	\$(.04)	\$.24	\$.35	\$(3.97)	\$(3.29)

united rentals

rental locations

UNITED STATES

Alabama

Bessemer GR(2)
Birmingham GR
Dothan GR
Florence GR(2)
Madison GR
Mobile GR
Montgomery GR
Oxford GR

Alaska

Anchorage GR(2)
Fairbanks GR
Palmer GR
Soldotna GR
Wasilla GR

Arizona

Bullhead City GR
Cottonwood GR
Flagstaff GR(1), TC(1)
Fort Mohave TC
Kingman GR
Lake Havasu City GR
Phoenix GR(3), TC(2), TPP(3)
Prescott GR(1), TC(1)
Show Low GR
Tempe GR
Tucson GR(1), TC(1), TPP(1)

Arkansas

Bentonville GR
Fayetteville GR
Little Rock GR
Rogers GR

California

Antioch GR
Arroyo Grande GR
Bakersfield GR(2), TPP(1)
Baldwin Park GR
Buena Park GR
Burbank GR(1), TPP(1)
Burlingame GR
Canoga Park GR
Carmichael GR
Castro Valley GR
Cathedral City GR
Chico GR
Chula Vista GR
Coachella TPP
Corona GR
Downey GR
Dublin GR
Elk Grove GR
Escondido GR(1), TPP(1)
Eureka GR
Folsom GR
Fontana GR(1), TPP(1)
Fremont GR(2)
Fresno GR(2), TPP(1)
Fullerton GR
Gardena GR
Gilroy GR
Hayward GR(1), TPP(1)
Hesperia GR
Huntington Beach GR
Indio GR
Lake Elsinore TC
Lakeside GR
Lancaster GR
Lodi GR

Long Beach GR(2), TPP(1)
Los Alamitos GR
Madera GR
Marysville GR
Merced GR
Modesto GR(3), TPP(1)
Montclair GR
Monterey GR
Mountain View GR
Napa GR(2)
Oakland GR
Oxnard TC
Pico Rivera GR
Redding GR
Ridgecrest GR
Riverside TPP
Rocklin GR
Sacramento GR(3), TPP(1)
Salinas GR
San Diego GR
San Francisco GR
San Jose GR(3), TC(1), TPP(1)
San Juan Capistrano GR
San Leandro GR
San Luis

Obispo GR(1), TPP(1)
Santa Ana GR
Santa Clarita GR
Santa Cruz GR
Santa Fe
Santas Springs GR(1), TC(1)
Santa Maria GR
Santa Rosa GR(1), TPP(1)
South Lake Tahoe GR
Stockton GR(2), TC(1)
Sunnyvale GR
Susanville GR
Tracy GR
Turlock GR
Vacaville GR
Van Nuys GR
Ventura GR(1), TC(1)
Visalia GR
Woodland GR

Colorado

Aurora GR
Avon GR
Boulder GR
Brighton GR
Castle Rock GR
Colorado Springs GR(1), TC(1), TPP(1)
Commerce City GR
Denver GR(1), TC(2), TPP(1)
Eagle GR
Fort Collins GR
Grand Junction GR
Littleton GR
Louisville GR
Loveland GR(1), TC(1)
Parker GR
Pueblo GR
Silverthorne GR

Connecticut

Bloomfield GR
Danbury GR(2)
Darien GR
Fairfield GR
Groton GR
Manchester GR
Milford GR
North Stonington GR
Old Saybrook GR
Plainville GR
Stamford GR
West Haven TPP

Delaware

Bear GR
Delmar GR
Frederica GR
Middletown GR
Newark GR

Florida

Bradenton GR
Clearwater GR(1), TC(1)
Davie GR
Deerfield Beach GR
Fort Lauderdale TC
Fort Myers GR(1), TC(1)
Fort Pierce TC
Fort Walton Beach GR
Gainesville GR
Holly Hill GR
Homestead GR
Jacksonville GR(2), TPP(2)
Jupiter TC
Lakeland GR
Lauderhill TPP
Longwood GR
Melbourne GR
Miami GR(2)
Naples GR
Orlando GR(3), TC(1), TPP(2)
Panama City Beach GR
Pensacola GR(1), TPP(1)
Pompano Beach TPP
Port Saint Lucie GR
Tallahassee GR
Tampa GR(2), TPP(1)
West Palm Beach GR

Georgia

Acworth GR
Atlanta GR
Augusta GR
Bogart GR
Carrollton GR
Columbus GR
Conyers GR
Fairburn TPP
Forest Park GR(2), TPP(1)
Garden City GR
Leesburg GR
Macon GR
McDonough GR
Norcross GR
Ringgold GR
Sugar Hill GR
Villa Rica GR

Idaho

Boise GR
Lewiston GR

Illinois

Addison GR
Bloomington TC
Carbon Cliff GR
Carbondale TC
Champaign GR
Chicago GR
Fairview Heights TC
Machesney Park TC
Mokena GR
Moline TC
Rockford GR
Springfield TC
Villa Park TC

Indiana

Bloomington GR
Edinburgh GR
Evansville GR
Fort Wayne GR
Greenfield GR
Indianapolis GR(3), TC(1), TPP(1)
Lafayette GR
Richmond GR
South Bend GR
Wanatah TC
West Terre Haute GR

Iowa

Cedar Rapids GR
Council Bluffs TPP
Des Moines GR
Dubuque GR
Grimes GR(1), TPP(1)
Mason City GR
Sioux City GR
Waterloo GR

Kansas

Kansas City TC
Salina TC
Topeka GR
Wichita GR(1), TC(1), TPP(1)

Kentucky

Georgetown GR
Lexington GR
Louisville GR(2)
Paducah GR

Louisiana

Baton Rouge TC
Gonzales GR(1), TPP(1)
Harvey TC
Lafayette GR
Monroe GR
Saint Rose GR
Shreveport GR

Maine

Bangor GR
Westbrook GR

Maryland

Annapolis GR
Baltimore GR(2)
Beltsville TPP
Bladensburg GR
Delmar GR
Frederick GR(3)
Gaithersburg GR
Joppa GR
Lexington Park GR
Pasadena GR
Prince Frederick TPP
Silver Spring GR
Upper Marlboro GR

Massachusetts

Agawam GR
Boston GR(2)
Canton GR
Everett GR
Kingston TPP
Ludlow GR
Millbury GR
Watertown GR
West Yarmouth GR
Worcester GR(1), TPP(1)

Michigan

Flint GR
Grand Rapids GR
Hudsonville GR
Portage GR
Romulus GR
Shelby GR
Taylor GR
Traverse City GR

Minnesota

Brainerd GR
Hermantown GR
Mankato GR
Minneapolis TC
Rochester GR(1), TC(1)
Rogers GR(1), TC(1)
Roseville GR
Saint Michael GR
Savage GR(1), TC(1), TPP(1)
Saint Paul GR(1), TC(1)

Mississippi

Gulfport GR
Olive Branch GR
Pearl GR

Missouri

Belton GR
Columbia TC
Earth City GR
Kansas City TPP
Liberty GR
North Kansas City GR
Saint Louis GR(1), TPP(1)
Springfield GR
St. Joseph TC
Strafford TC
Weldon Spring GR

Montana

Billings TC
Missoula TC

Nebraska

Lincoln GR(2)
Norfolk GR
Omaha GR
Papillion GR

Nevada

Carson City GR
Elko GR
Gardnerville GR
Las Vegas GR(1), TPP(2)
North Las Vegas TC
Reno GR(2), TPP(1)
Sparks GR

New Hampshire

Hudson GR
Manchester GR
West Lebanon GR

New Jersey

Bellmawr GR
Burlington GR
Carlstadt TC
Egg Harbor GR(2)

Elmwood Park GR
Piscataway GR
Richland TC
Ridgefield
Park GR(1), TPP(1)

New Mexico

Albuquerque GR
Farmington GR
Las Cruces GR

New York

Batavia GR
Brooklyn GR
Carmel GR
Clifton Park GR
East Syracuse GR
Falconer GR
Flushing GR
Holtsville GR(2)
Middletown GR
New Windsor GR(2)
New York City GR(3)
Newburgh GR
Peekskill GR
Rochester GR(3)
Wappingers Falls GR(2)
White Plains GR
Williamsville GR

North Carolina

Arden GR
Charlotte GR(3), TPP(1)
Durham GR
Fayetteville GR
Garner GR
Greensboro GR(2)
Indian Trail GR
Jacksonville GR
Raleigh GR
Salisbury GR
Wilmington GR
Winston Salem GR

North Dakota

Bismarck GR(1), TC(1)
Fargo GR(1), TC(1)
Minot GR

Ohio

Brooklyn Heights TC
Cincinnati GR
Cleveland GR
Columbiana GR
Columbus GR(2), TPP(1)
East Liverpool GR
Independence GR
Marietta GR
North Olmsted TPP(2)
Perrysburg GR
Toledo GR

Oklahoma

Oklahoma City GR
Tulsa GR

Oregon

Bend GR
Clackamas GR
Corvallis GR
Eugene GR
Grants Pass GR
Gresham GR

Hillsboro GR
Medford GR(2)
Portland GR(3), TC(1), TPP(1)
Roseburg GR
Salem GR(1), TPP(1)
Seaside GR
Tigard GR
Tualatin GR

Pennsylvania

Chester TPP
Hatfield TC
Lebanon GR
Mechanicsburg GR(1), TC(1)
Middletown GR
New Holland TC
Oakdale GR(2)
Palmyra GR
Philadelphia GR(1), TPP(1)
Quakertown GR
State College GR
Watsonstown TC
Wilkes-Barre GR
Windber TC
York GR

Rhode Island

Smithfield GR

South Carolina

Anderson GR
Charleston GR
Columbia GR
Conway GR
Greenville GR
North Charleston GR
Rock Hill GR
Spartanburg GR

South Dakota

Rapid City GR(1), TC(1)
Sioux Falls GR(1), TC(1)

Tennessee

Franklin GR
Kingsport GR
Knoxville GR(3)
Memphis GR(1), TPP(1)
Nashville GR(2)
Spring Hill GR

Texas

Amarillo TC
Arlington TPP
Austin GR(1), TC(1), TPP(1)
Beaumont GR(1), TPP(1)
Carrollton GR
Cedar Park GR
Conroe GR
Corpus
Christi GR(1), TC(1), TPP(1)
Corsicana GR
Dallas TPP
Denton GR
El Paso GR
Fort Worth GR(3), TC(1)
Gainesville TC
Garland TC
Greenville GR
Houston GR(5), TC(1), TPP(1)
Irving GR(2)
Katy GR
Keller GR(1), TPP(1)
La Porte GR
Laredo GR

League City GR
Lubbock GR(1), TC(1)
Lufkin GR
Manor TC
New Braunfels GR
Odessa GR
Palestine GR
Plano GR
Rosenberg GR
Round Rock GR
San Antonio GR(2), TPP(1)
Sherman GR
Temple GR
The Woodlands GR
Tyler GR
Von Ormy GR
Wichita Falls TC

Utah

Kaysville GR
Orem GR
Saint George TC
Salt Lake City GR(2), TPP(1)
Sandy GR

Virginia

Chantilly GR
Charlottesville GR
Chesapeake GR(2)
Chester GR
Fairfax GR(1), TPP(1)
Fredericksburg GR
Glen Allen GR
Hampton GR
Herndon GR
Richmond GR
Roanoke GR
Winchester GR

Washington

Airway Heights GR
Auburn GR
Bellingham GR
Bonney Lake GR
Bothell GR
Bremerton GR
Burlington GR
Chehalis GR
Covington GR
Ellensburg GR
Federal Way GR
Gig Harbor GR
Kirkland GR
Longview GR
Marysville GR
Monroe GR
Pasco GR
Port Angeles GR
Puyallup GR
Renton GR
Seattle GR(1), TPP(1)
Spokane GR(1), TPP(1)
Tacoma TPP
Tukwila GR
Tumwater GR
Union Gap GR
Vancouver GR
Woodinville TPP

West Virginia

Fairmont GR
Huntington GR

Wisconsin

De Pere GR
Madison GR
Marshfield GR
Milwaukee GR(3), TC(1)

Wyoming

Casper GR
Cheyenne TC

CANADA

Alberta

Calgary GR(2)
Edmonton GR
Fort McMurray GR
Lethbridge GR
Medicine Hat GR
Red Deer GR
St. Albert GR

British Columbia

Abbotsford GR(2), TPP(1)
Burnaby GR(2)
Campbell River GR
Chilliwack GR
Fort Saint John GR
Genelle GR
Kamloops GR
Langley GR
Maple Ridge GR
Nanaimo GR
North Vancouver GR
Port Coquitlam GR
Prince George GR
Richmond GR
Surrey GR
Vancouver GR
Victoria GR
Whistler GR
Whiterock GR

Manitoba

Flin Flon GR
Thompson GR
Winnipeg GR

New Brunswick

Bathurst GR
Campbellton GR
Edmundston GR
Fredericton GR
Jacksonville GR
Moncton GR
Newcastle GR
St. John GR
St. Stephen GR

Newfoundland

Arnold's Cove GR
Corner Brook GR
Goose Bay GR
Grand Falls Windsor GR
Mount Pearl GR
St. Johns GR
Wabush GR

Nova Scotia

Bridgewater GR
Dartmouth GR
New Glasgow GR
Port Hawkesbury GR
Sydney GR
Truro GR

Ontario

Barrie GR(2)
Belleville GR
Bracebridge GR
Brampton GR
Brantford GR
Cambridge GR
Cigar Lake GR
Collingwood GR
Dryden GR
Guelph GR
Kenora GR
Kingston GR
Kitchener GR(2)
London GR(2)
Meaford GR
Mississauga GR
North Bay GR
Oshawa GR(2)
Ottawa GR
Saint Catherines GR
Sarnia GR
Scarborough GR
Stoney Creek GR(2)
Stratford GR
Sudbury GR
Toronto GR
Walkerton GR
Waterloo GR
Windsor GR

Prince Edward Island

Charlottetown GR

Quebec

Chicoutimi GR
Longueuil GR
Mont Tremblant GR
Saint Laurent GR
Saint Leonard GR
Sept-Iles GR
Shawinigan GR
Trois-Rivieres GR
Vanier GR

Saskatchewan

Saskatoon GR

MEXICO

Nuevo Laredo

Escobedo GR

GR General Rentals
TC Traffic Control
TPP Trench Safety,
Pump and Power

corporate information

Board of Directors

Bradley S. Jacobs
Chairman

Wayland R. Hicks
Vice Chairman and
Chief Executive Officer

Michael S. Gross^(2, 3)
Lead Director
Founding Partner
Apollo Management, L.P.

Leon D. Black
Founding Principal
Apollo Management, L.P.

**Howard L.
Clark Jr.**^(2, 3, 4)
Vice Chairman
Lehman Brothers Inc.

**Singleton
McAllister**⁽³⁾
Partner
Mintz, Levin, Cohen,
Ferris, Glovsky
and Popeo

**Brian D.
McAuley**^(1, 2, 3, 4)
Partner
NH II, LLC

John S. McKinney
Director

**Jason
Papastavrou, Ph.D.**^(1, 4)
Chief Executive Officer
ARIS Capital
Management

Mark Suwyn^(1, 4)
Chairman and
Chief Executive Officer
NewPage Corporation

Gerald Tsai Jr.^(2, 3)
Director

**Lawrence
Wimbush**⁽¹⁾
Director

Committees of the Board

- (1) Audit Committee
Brian D. McAuley, Chair
- (2) Compensation
Committee
Michael S. Gross, Chair
- (3) Nominating and
Corporate Governance
Committee
Howard L. Clark Jr., Chair
- (4) Special Committee
Brian D. McAuley, Chair

Executive Officers

Wayland R. Hicks
Vice Chairman and
Chief Executive Officer

**Michael J.
Kneeland**
Executive
Vice President
Operations

Martin E. Welch
Executive
Vice President and
Chief Financial Officer

Corporate Vice Presidents

Raymond J. Alletto
Vice President
Risk Management

Dale A. Asplund
Vice President
Operations Services

Stephen D. Baird
Vice President
Corporate Security

Kurtis T. Barker
Vice President
Traffic Control Region

**Christopher M.
Brown**
Vice President
Assistant Controller

Troy A. Cooper
Vice President and
Group Controller

Michael G. DeCata
Vice President
Contractor Supplies

**Ernest P.
Delle Donne Jr.**
Vice President
National Accounts and
Government Sales

Leroy J. Dieter Jr.
Vice President
Midwest Region

John J. Fahey
Vice President
Assistant Controller

Matthew Flannery
Vice President
High Reach Region

Honey S. Harris
Vice President
Gulf Region

Richard Haselwood
Vice President
Government Affairs

Todd G. Helvie
Vice President
Tax and Business
Development

Jeffrey M. Johnson
Vice President
Supply Chain and
Fleet Operations

Robert P. Krause
Vice President
Rocky Mountain
Region

William F. Locklin
Vice President
Southwest Region

**Michael D.
MacDonald**
Senior Vice President
Sales and Marketing

Elliott S. Mayer
Vice President and
Treasurer

Paul McDonnell
Vice President
Trench Safety, Pump &
Power Region

Eric D. Mertz
Vice President
Internal Audit

Kenneth B. Mettel
Vice President
Planning and Analysis

James T. Milde
Senior Vice President
and Chief Information
Officer

Steven E. Nadelman
Senior Vice President
Field Operations and
Corporate Real Estate

Kenneth J. Perkins
Vice President
Southeast Region

Craig A. Pintoff
Vice President
Human Resources

Fred L. Ransom
Vice President
Northeast Region

**Charles K.
Wessendorf**
Vice President
Investor Relations
and Corporate
Communications

**Matthew C.
Womble**
Vice President
Legal Affairs

**URI
LISTED
NYSE**

United Rentals Stock Listing

United Rentals common stock is listed on the New York Stock Exchange under the symbol "URI." The common stock is included in the Standard & Poor's MidCap 400 Index and the Russell 2000 Index®.

United Rentals Common Stock Prices

2005	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
High	\$21.87	\$21.37	\$20.99	\$24.62
Low	16.14	17.12	16.46	17.06
Close	20.21	20.21	19.71	23.39
2004				
High	\$23.35	\$19.94	\$20.54	\$19.16
Low	15.76	15.62	13.95	15.09
Close	17.77	17.89	15.89	18.90

On March 1, 2006, there were 428 holders of record of our common stock. We believe that the number of beneficial owners is substantially greater than the number of record holders, because a large portion of our common stock is held in broker "street names."

We have not paid dividends on the common stock since the Company's inception. Under the terms of certain agreements governing our outstanding indebtedness, we are prohibited or restricted from paying dividends on our common stock.

We have filed with the SEC the certifications required by Section 302 of the Sarbanes-Oxley Act as an exhibit to our 2005 Annual Report on Form 10-K. We have also submitted to the NYSE in 2005 the CEO certification required by the NYSE corporate governance rules in which our CEO certified that he was not aware of any violation by the Company of the NYSE's corporate governance listing requirements other than (i) the Company had not filed its 2004 Annual Report, (ii) the Company had not held an annual meeting in 2005 or filed a proxy statement in 2005 and (iii) the Company had not distributed an annual report to shareholders in 2005. The Company has subsequently filed its 2005 and 2004 Annual Reports on Form 10-K and is in compliance with NYSE listing requirements.

Corporate Headquarters

United Rentals, Inc.
Five Greenwich Office Park
Greenwich, CT 06831
Phone: (203) 622-3131
Fax: (203) 622-6080
unitedrentals.com

Independent Auditors

Ernst & Young LLP
5 Times Square
New York, NY 10036
(212) 773-3000

Investor Information

For United Rentals investor information, including our quarterly earnings releases, webcasts and Securities Exchange Act reports:

unitedrentals.com

Investment professionals may contact:

Charles K. Wessendorf
Vice President
Investor Relations
and Corporate
Communications
cwessendorf@ur.com
(203) 618-7318

2006 Annual Meeting

Tuesday, June 13, 2006
at 2:00 pm.

Delamar Greenwich
Harbor Hotel
500 Steamboat Road
Greenwich, CT 06830

Shareholder Information

For shareholder services
24 hours a day:
Call toll-free
(800) 937-5449
in the United States
and Canada, or
(718) 921-8200.

E-mail:
investors@unitedrentals.com

To speak to a shareholder
services representative,
please call between 9:00 am
and 5:00 pm Eastern Time,
Monday through Friday.

- Account information
- Transfer requirements
- Lost certificates
- Change of address
- Tax forms

Write:
American Stock
Transfer & Trust
Company
40 Wall Street
New York, NY 10005

By overnight mail only:
American Stock
Transfer & Trust
Company
6201 15th Avenue
Brooklyn, NY 11219
(718) 921-8210

www.amstock.com

Aerial Lifts



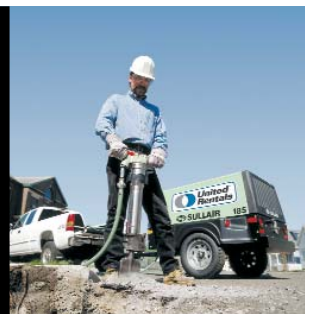
Skid-Steers



Excavators



Air Compressors



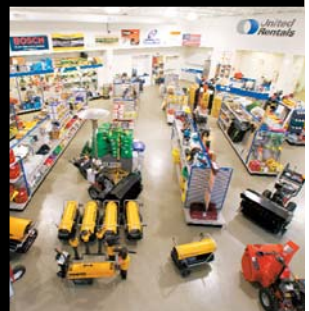
Pumps



Steel Trench Shields



Traffic Control Arrow Boards and Barricades



Contractor Supplies



United Rentals, Inc.
Five Greenwich Office Park
Greenwich, CT 06831

unitedrentals.com