UNITED STATES DISTRICT COURT FOR THE
DISTRICT OF CONNECTICUT

SECURITIES AND EXCHANGE COMMISSION, Plaintiff,	:	Civil Action No.
v.	:	
UNITED RENTALS, INC., Defendant.	:	

COMPLAINT

Plaintiff Securities and Exchange Commission (the "Commission") alleges as follows:

NATURE OF THE ACTION

1. This case involves a series of fraudulent accounting schemes and other improper accounting practices by United Rentals, Inc. ("URI" or "the Company"). The conduct involves the recognition of revenue from six sale-leaseback transactions between 2000 and 2002, and from related "trade packages" during the same period. URI also improperly applied purchase accounting principles relating to the acquisition of various businesses between 1998 and 2000. As a result, URI materially misstated its financial condition and operating results in filings with the Commission.

2. From 2000 through 2002, URI and two of its former senior officers, Michael J. Nolan ("Nolan"), then-Chief Financial Officer ("CFO"), and John N. Milne ("Milne"), then-Vice-Chairman and Chief Acquisition Officer, engaged in a series of fraudulent accounting schemes in order to meet the Company's earnings forecasts and analyst expectations, in violation of the federal securities laws. In the face of

deteriorating business conditions at URI, Nolan and Milne carried out the fraud primarily through a series of interlocking three-party sale-leaseback transactions, in which URI sold used equipment to a financing company ("Financing Company") and then leased the equipment back for a short period. To induce the Financing Company to participate in these transactions, Milne and Nolan arranged for a third-party equipment manufacturer to guarantee the Financing Company against any losses. At the same time, URI guaranteed the equipment manufacturer against any losses it might incur under its guarantee to the Financing Company. The deals were fraudulently structured to inflate URI's profits and allow URI to recognize immediately the revenue generated from the sales to the Financing Company.

3. As a result of the fraud, URI materially misstated its financial condition and operating results in filings with the Commission. URI materially overstated its originally reported earnings per share ("EPS") for the fourth quarter and full year 2000, the second quarter 2001, the fourth quarter and full year 2001, and the first quarter of 2002. In addition, URI materially overstated its pre-tax income for the fiscal years 2000 and 2001. The misstatements were reflected in its Forms 10-K for fiscal years 2000 and 2001, and its Forms 10-Q for the periods ended June 30, 2001 and March 31, 2002, as well as in other public releases.

4. URI's revenue and gross profit for the period 2000 - 2002 were also overstated through the improper accounting of fraudulent "trade package" deals with certain suppliers, whereby URI sold used equipment at a premium in return for concessions to the suppliers. URI improperly recognized the revenue from those transactions, without disclosing the concessions made.

5. From 1997 to 2000, during a period of enormous growth through acquisitions, URI engaged in improper accounting practices involving its valuation of acquired assets, use of acquisition reserves, and accounting for customer relationships. In addition, the Company improperly accounted for other items that overstated net income, including the estimation and recording of self-insurance reserves, its recognition of equipment rental revenues, and its income tax accounting. As a result, URI violated the reporting, record-keeping and internal control provisions of the federal securities laws.

6. By engaging in the conduct described herein, URI, directly or indirectly, violated, and unless restrained and enjoined, will continue to violate, Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)], Sections 10(b), 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§78j(b), 78m(a) and 78m(b)(2)(A) and (B)], and Rules 10b-5, 12b-20, 13a-1, 13a-11 and 13a-13 [17 C.F.R. §§240.10b-5, 12b-20, 13a-1, 13a-11, and 13a-13], thereunder.

7. The Commission brings this action pursuant to Sections 21(d) and (e) of the Exchange Act [15 U.S.C. §§78u(d) and (e)] for an order permanently restraining and enjoining URI, seeking disgorgement and a penalty, and granting other equitable relief.

JURISDICTION AND VENUE

8. The Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. §77v(a)] and Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §§78u(e) and 78aa]. URI has, directly or indirectly, made use of the means or instrumentalities of interstate commerce and/or of the mails in connection with the

transactions in this Complaint. Certain of the acts, practices and courses of business constituting the violations alleged herein occurred within this judicial district.

DEFENDANT

9. United Rentals, Inc. is a Delaware corporation with headquarter offices located in Greenwich, Connecticut. URI is one of the largest equipment rental companies in the world. URI's common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act [15 U.S.C. §78l(b)] and listed on the New York Stock Exchange ("NYSE"). URI files periodic reports with the Commission pursuant to Section 13(a) of the Exchange Act.

RELATED PARTIES

10. Michael J. Nolan, age 47, a resident of North Carolina, served as URI's Chief Financial Officer from the Company's formation in September 1997 until December 2002.

11. John N. Milne, age 48, a resident of Connecticut, served as Vice Chairman and Chief Acquisition Officer from the Company's formation in September 1997. In June 2001, Milne became the President of URI and beginning on December 9, 2002, he concurrently held the office of CFO.

FACTS

The Sale-Leaseback Transactions

12. From 2000 through 2002, URI engaged in six fraudulent sale-leaseback transactions designed both to allow URI to recognize revenue prematurely and to inflate the profit generated from the sales. URI knew, or was reckless in not knowing, that its accounting for the transactions was not in accordance with generally accepted accounting

principles ("GAAP") and, as a result, that the profits URI recognized materially overstated its financial results.

13. Milne and Nolan purported to structure the transactions on behalf of URI as "minor sale-leasebacks," which under GAAP would allow URI to recognize immediately the profit generated by the sale of the equipment only if, among other criteria, the risks and rewards of ownership were transferred to the Financing Company. GAAP also requires that before revenue from the sale of equipment can be recognized, the sale price must be fixed and determinable. If any commitments related to the sales remain unsettled, the sales price is not deemed to be fixed and determinable, and any gain from the sales must be deferred until the commitments are settled.

14. The Financing Company was involved in four of the six sale-leaseback transactions. In each of the four instances, URI sold used equipment to the Financing Company and then leased the equipment back for a period of 8 months. In order to obtain the Financing Company's agreement to the sale-leaseback, URI was required to do two things: first, to pay the Financing Company a fee; and second, to arrange for a third-party equipment manufacturer to enter into a "remarketing agreement" with the Financing Company, pursuant to which the equipment manufacturer agreed to remarket (resell) the equipment at the end of the lease period and to guarantee the Financing Company a residual value for the equipment. Under the agreements, the residual values were specified to be no less than 96% of the purchase price paid by the Financing Company. The equipment manufacturers were willing to provide the Financing Company with these guarantees because URI in turn agreed to indemnify each of the

manufacturers against any losses it might incur and to make substantial purchases of new equipment from the manufacturer.

15. Milne and Nolan engaged in extensive efforts to hide from URI's independent auditor both the fees paid to the Financing Company and the guarantees made to the third-party manufacturers.

16. Because Milne and Nolan on behalf of URI had offered guarantees to the equipment manufacturers that URI would cover losses the manufacturers might incur under their remarketing agreements with the Financing Company, URI's obligations relating to the sale-leaseback agreements were not complete in the reporting period in which the agreements were executed. As a result, GAAP prohibited the Company from recording any revenue in each of those reporting periods. By hiding the interlocking agreements from the Company's independent auditor, Milne and Nolan were able to prevent discovery of URI's continuing obligations under the three-party agreements.

17. Because the manufacturers were required to guarantee the Financing Company at least 96% of the prices set forth in those lease agreements ("residual value guarantees"), Milne and Nolan also knew that the valuations they assigned to the used equipment in the lease agreements would cause millions of dollars in losses to the third-party manufacturers.

18. Moreover, the manufacturers were also aware that the prices URI had established in the lease agreements would likely cause substantial losses when the equipment was resold. As a result, the manufacturers insisted that URI protect them by guaranteeing to indemnify them for any losses they might incur. URI agreed to provide the indemnification guarantees, but in each case disguised the indemnification payments

through various devices, such as undisclosed “premiums” on the purchase of new equipment from the manufacturers.

19. The two additional sale-leaseback transactions did not involve the Financing Company or another third-party financing entity. Nevertheless, the two transactions were also fraudulently structured as purported “minor sale-leaseback” transactions in order to allow the Company to meet earnings guidance and analyst expectations.

The December 2000 Sale-Leaseback Transaction

20. Late in the fourth quarter of URI’s 2000 fiscal year, Milne, Nolan and other senior managers realized that the Company would not meet its earnings forecast and analyst expectations for either the fourth quarter or the full fiscal year-ending 2000. On December 18, 2000, URI issued a press release announcing that, due to a weakening economy, it would miss Wall Street earnings estimates for the fourth quarter. The Company announced that it expected fourth-quarter earnings of 40 cents per share, well below the average analyst expectations of 62 cents per share, and for the current full year, earnings of $1.89 per share, again well below analyst expectations of $2.11 per share for the year.

21. Notwithstanding the lowered guidance, Milne and Nolan realized that the Company would be unlikely to meet even the reduced expectations without boosting the Company’s reported income before year-end. As a result, Milne and Nolan commenced negotiations with the Financing Company to structure a sale as a minor sale-leaseback transaction so as to allow URI to record immediately the gain on the sale and thereby meet the reduced earnings expectations for both the fourth quarter and the fiscal year.

URI entered into a three-party transaction involving the Financing Company and Manufacturer A, an equipment manufacturer and one of URI's vendors.

22. On December 29, 2000, URI entered into a Master Lease Agreement ("MLA") with the Financing Company pursuant to which URI sold a fleet of used equipment to the Financing Company for $25.3 million and leased the equipment back for a period of 8 months. The MLA specified that the depreciated residual value of the equipment at the end of the lease period would be 96% of the sale price. Simultaneously, and as an express condition of the Financing Company for entering into the MLA, the Financing Company and Manufacturer A entered into a Remarketing Agreement, pursuant to which Manufacturer A agreed to remarket the equipment at the end of the MLA lease period and to indemnify the Financing Company for any shortfall between the guaranteed residual values and the proceeds that were generated by the re-sale of the equipment. Manufacturer A also agreed that, at the Financing Company's option, Manufacturer A would be required to buy, at the pre-determined residual values, any equipment that remained unsold at the end of the remarketing period. Lastly, URI agreed to purchase from Manufacturer A approximately $20 million of new equipment before the end of the 2000 calendar year, and to pay Manufacturer A approximately $5 million immediately to cover Manufacturer A's anticipated losses from its residual value guarantee to the Financing Company. In accordance with the agreement, URI and Manufacturer A also executed a "backup" remarketing agreement under which URI effectively assumed Manufacturer A's remarketing obligations and guarantees to the Financing Company and agreed to cover any losses to Manufacturer A over the $5 million advance payment through guaranteed future purchases.

Concealing URI's Risks and Continuing Obligations

23. Knowing that the discovery of the three-party agreements and URI's continuing obligations would cause the Company's independent auditor to object to URI booking an immediate gain on the sale, Milne and Nolan hid from the auditor evidence of the interlocking structure of the agreements and of the residual value guarantees contained in them. Thus, an initial draft of the MLA between URI and the Financing Company was edited to remove references to Manufacturer A's agreement to remarket the equipment.

24. Similarly, an initial draft of the backup remarketing agreement between URI and Manufacturer A was edited to remove explicit references to the Remarketing Agreement between Manufacturer A and the Financing Company. Manufacturer A sent to Nolan an initial draft of the proposed backup agreement, explicitly describing Manufacturer A's residual value guarantee to the Financing Company on the fleet of equipment being leased by URI. The draft laid out URI's agreement to remarket that fleet of equipment and to indemnify Manufacturer A for any shortfalls (i.e. the difference between the resale price and the residual value guarantee) incurred in reselling the equipment.

25. In response to the initial draft, Milne provided to Manufacturer A a draft agreement that deleted all explicit references to the Financing Company and URI's agreement to remarket the fleet. Instead, Milne's draft referred to URI's obligation to remarket a fleet of equipment "which is typically in United Rentals rental fleet and is then owned by a leasing company which is not less than investment grade, and is required to be remarketed by Manufacturer A from such leasing company for a period

commencing in August, 2001." Nowhere in the revised draft was any language identifying the name of the leasing company or the fact that the fleet to be remarketed was the same fleet URI had sold to the Financing Company. In place of the residual value that Manufacturer A had agreed to pay the Financing Company, Milne's revised draft referred to URI's guarantee to pay Manufacturer A "the total cost incurred or that would be incurred by [Manufacturer A] to purchase such equipment…."

26. Milne signed the revised backup remarketing agreement on behalf of URI, knowing that it was designed to hide URI's risks and continuing obligations under the three-party transaction.

27. When questioned by the Company's outside auditor, Nolan denied the existence of any agreements or commitments beyond those reflected in the MLA. Nolan subsequently repeated the misrepresentations in the Company's representation letter dated February 23, 2001. In February 2003, in the Company's representation letter to its auditor, sent in connection with the audits for each of the three years in the period ended December 31, 2002, Milne also falsely represented that all significant contracts and agreements had been provided to its auditor.

28. In an amendment to a registration statement on Form S-3 filed with the Commission in September 2001, and contrary to the terms of the backup remarketing agreement with Manufacturer A, URI misrepresented that it "currently" had no obligations to purchase equipment from Manufacturer A. Milne reviewed the disclosure in advance of the filing and approved of the misrepresentation to investors.

Hiding URI's Fee Payments to the Financing Company

29. In addition, believing that the fee that the Financing Company was charging on the sale-leaseback financing would prevent URI from accounting for the transaction as a "minor sale-leaseback," and thus from recognizing immediately the profit from the sale, Nolan and Milne arranged with the Financing Company to characterize the fee payment as being related to a separate financing transaction that the Financing Company and URI had essentially agreed upon one month earlier.

Disguising URI's Indemnification Payments

30. Pursuant to its commitment to indemnify Manufacturer A against losses incurred in Manufacturer A providing a residual value guarantee to the Financing Company, URI made two lump-sum payments to the manufacturer. Knowing that the gains booked on the sale of the equipment should have been reduced by the amount of the indemnification payments, Milne and Nolan disguised the real purpose of the payments and made false entries in URI's books and records.

31. Both URI and Manufacturer A anticipated that the residual value guarantee provided to the Financing Company would result in Manufacturer A suffering a large shortfall when the equipment was resold. As a result, Manufacturer A insisted that URI make an immediate advance payment of $5 million, simultaneously with the execution of the various written agreements. Nolan and Milne agreed that the $5 million indemnification payment would be included as part of URI's purchase of $20 million of new equipment from Manufacturer A before the end of the calendar year. Manufacturer A issued invoices for the new equipment showing that the purchase price was approximately $25 million, when in fact the real price for the equipment was

approximately $20 million. Aware that the invoices included a hidden indemnification payment of $5 million, Nolan nevertheless forwarded the inflated invoices to URI's accounting department, knowing that the accounting department would enter the incorrect prices in the Company's books and records.

32. During 2001 and 2002, as an industry recession continued, URI and Manufacturer A were unable to resell the equipment at or near the residual values that had been guaranteed to the Financing Company. The recession also generated losses even greater than the initial estimated $5 million shortfall. Towards the end of 2002, following extensions to the remarketing period contained in the original agreement between Manufacturer A and the Financing Company, the Financing Company prepared a final reconciliation of the remaining financial obligation owed by Manufacturer A under the residual value guarantee. Simultaneously, Manufacturer A and URI prepared a final reconciliation of URI's financial obligation under the backup remarketing agreement.

33. Milne signed a "Contract" between URI and Manufacturer A, dated December 31, 2002, which purported to extend the remarketing and purchase agreements between the two companies that would otherwise expire. Further, the contract provided that URI "agrees" to make an $8 million "prepayment," to be applied as a "surcharge" on the purchase of additional equipment from Manufacturer A in the following 6 months. The contract specified that Manufacturer A could keep the prepayment even if URI failed to make those additional purchases.

34. Milne knew that the contract purporting to characterize URI's $8 million payment as a "prepayment" and "a surcharge" on the purchase of new additional

35. As a result of the fraudulent accounting, the financial statements and results that URI incorporated into its periodic filings and other materials disseminated to the investing public were materially false and misleading. By fraudulently characterizing the transaction as a minor sale-leaseback, URI had improperly recorded for the fourth quarter and the fiscal year 2000 an additional profit of $12.2 million, or $0.08 and $0.07 per share respectively, which allowed URI to meet its revised earnings per share targets for both the fourth quarter and the fiscal year 2000.

The 2001 Sale-Leaseback Transactions

36. For both the second quarter 2001 and the fourth quarter and full year 2001, URI engaged in four additional sale-leaseback transactions, three of which involved the Financing Company. In each instance, Milne and Nolan wanted to generate immediate revenues and profits to allow URI to meet earnings expectations for the corresponding reporting period.

The June 2001 Transactions

37. In late June 2001, URI entered into two sale-leaseback transactions with the Financing Company, each involving a different third-party equipment manufacturer ("Manufacturers B and C"). As in the December 2000 transaction, Manufacturers B and C each entered into remarketing agreements with the Financing Company and agreed to provide the Financing Company with residual value guarantees for the equipment. URI in turn entered into backup agreements with the manufacturers, agreeing to purchase additional equipment from them and guaranteeing to indemnify the manufacturers against losses incurred in the remarketing of the equipment URI had sold to the Financing Company.

38. Milne signed the backup remarketing agreement between URI and Manufacturer B contemporaneously with the signing of the Master Lease Agreement between URI and the Financing Company and the Remarketing Agreement between the Financing Company and Manufacturer B. As with the transaction with Manufacturer A, the backup remarketing agreement was drafted to conceal the true nature of the transaction from URI's auditor. Thus, although under the backup agreement URI effectively assumed Manufacturer B's remarketing obligations and guarantees to the Financing Company, the backup remarketing agreement omitted all explicit references to Manufacturer B's commitments to the Financing Company.

39. In March 2003, pursuant to its commitment to indemnify Manufacturer B against losses the equipment manufacturer incurred in providing a residual value guarantee to the Financing Company, URI made a lump-sum payment to Manufacturer B. Milne directed that the final indemnification payment of $4.03 million to Manufacturer B

in March 2003 be disguised as a payment made for the "purchase of equipment." Subsequently, again at Milne's direction, the payment was improperly expensed on the Company's books and records.

40. URI executed a second three-party transaction in late June 2001, with the Financing Company and Manufacturer C. As with the other sale-leaseback transactions, Nolan and Milne agreed that URI would indemnify Manufacturer C for its losses if Manufacturer C agreed to provide a residual value guarantee to the Financing Company.

41. Nolan and Milne resisted requests to put URI's "promise" in writing. A draft agreement sent to URI by Manufacturer C, which made explicit URI's commitment to "make [Manufacturer C] whole" for any losses incurred by Manufacturer C in providing the guarantee to the Financing Company, was replaced by a URI-prepared "Agreement" which Milne signed referencing only URI's commitment to purchase additional equipment from Manufacturer C. The Agreement did not reveal that URI's purchases were designed to indemnify Manufacturer C for an anticipated loss of $3.5 million under its residual value guarantee to the Financing Company, by among other things, URI paying undisclosed premiums and foregoing marketing allowances on the purchases.

42. Subsequently, Manufacturer C was advised by its auditor that without a written commitment from URI agreeing to indemnify Manufacturer C, Manufacturer C would have to report a loss under its Remarketing Agreement with the Financing Company. As a result, Manufacturer C insisted that URI put its "make whole" commitment in writing.

43. On October 12, 2001, Milne signed a "Remarketing Agreement" between URI and Manufacturer C, pursuant to which URI effectively assumed the remarketing obligations and guarantees that Manufacturer C had committed to under its Remarketing Agreement with the Financing Company. As with the other sale-leaseback transactions, the remarketing agreement between URI and Manufacturer C omitted all explicit references to Manufacturer C's obligations to the Financing Company. A separate letter signed by a senior URI Fleet Operations officer, however, specifically represented that the "Re-marketing Agreement dated October 12, 2001 and signed by John Milne on behalf of United Rentals, Inc. is the only agreement pertaining to the [Financing Company] Minor Sale Leaseback deal…."

44. In the two June 2001 transactions, URI's sales of used equipment to the Financing Company were for approximately $8.95 million (involving Manufacturer B) and $10.3 million (involving Manufacturer C). As a result of accounting for these two sales as minor sale-leaseback transactions, for the second quarter 2001, URI improperly recorded profits of $6.29 million and $6.9 million, respectively.

<u>The December 2001 Transactions</u>

45. In December 2001, following earlier announcements by URI that the Company was lowering its fourth quarter and full year earnings guidance, Milne and Nolan initiated two additional fraudulent sale-leaseback transactions in order to allow URI to meet the revised guidance. The larger transaction involved the Financing Company, while the smaller was executed directly with the equipment manufacturer, without the participation of a third-party financing entity.

46. On December 28, 2001, URI and the Financing Company entered into a second sale-leaseback agreement involving Manufacturer A. This transaction was structured similarly to the initial transaction with Manufacturer A: (1) URI sold used equipment to the Financing Company (for $13.7 million) and leased it back for a short period; (2) Manufacturer A agreed to remarket (re-sell) the equipment and provide the Financing Company with the same residual value guarantee as it had previously made; and (3) URI agreed to indemnify Manufacturer A for the losses it was expected to incur under the residual value guarantee.

47. Unlike the December 2000 transaction, URI did not enter into a backup remarketing agreement with Manufacturer A. URI did agree, however, to purchase new equipment from Manufacturer A and to provide an immediate indemnification payment of $4 million to cover Manufacturer A's expected losses in providing the Financing Company with the residual value guarantees. As with the first transaction, Manufacturer A issued inflated invoices to URI for the purchase of new equipment: the aggregate invoice price of $28 million included an undisclosed indemnification payment of $4 million. Milne was aware of and acquiesced in URI's payment of the undisclosed "premium" to Manufacturer A. URI improperly capitalized the entire payment of $28 million. For the fourth quarter and year-ending December 31, 2001, URI recorded an immediate profit of approximately $6.1 million on the sale of approximately $13.7 million in used equipment.

48. As with the other sale-leaseback transactions, Milne and Nolan concealed from URI's auditor the existence of the interlocking three-party structure, URI's continuing risks and obligations and the indemnification payments URI agreed to make to

Manufacturer A. In URI's 2001 management letter, Nolan falsely stated that all significant contracts and agreements had been made available to the auditor. In URI's 2002 management letter, Milne made identical misrepresentations to the auditor.

49. In addition, Nolan and Milne again arranged with the Financing Company to conceal the 6% fee charged by the Financing Company to agree to the sale-leaseback. Believing that the fee of $843,000, if disclosed, would prevent URI from accounting for the transaction as a minor sale-leaseback and thus prevent URI from recognizing immediately the profit from the sale, Milne and Nolan concealed the true purpose for the payment. Milne and Nolan directed that URI pay the Financing Company $546,000 of the $843,000 as a legal expense unrelated to the sale-leaseback transaction. The remaining $277,000 payment was hidden through an undisclosed credit on a separate financial obligation owed to URI by the Financing Company.

50. The second sale-leaseback transaction in December 2001 did not involve the Financing Company, but was negotiated directly with an equipment manufacturer ("Manufacturer D"). URI sold used equipment to Manufacturer D for approximately $2.3 million, leased the equipment back for 8 months, and recorded an immediate gain on the sale of $917,000.

51. Both URI and Manufacturer D estimated that the fair market value of the used equipment was at a minimum approximately $700,000 below the values established in the sales price to Manufacturer D. As an inducement to Manufacturer D to agree to the sale-leaseback and the resultant shortfall, URI agreed to purchase new equipment from Manufacturer D, using the purchase as a means to cover that shortfall. URI agreed to indemnify Manufacturer D through paying a "premium" on the purchase of new

equipment, as well as foregoing both a standard marketing allowance and cash payment discount. In March 2003, with Milne's knowledge and approval, URI made a final payment of $115,363 to Manufacturer D, to cover the shortfall incurred in the sale of various pieces of used equipment during the lease period.

52. As a result of the fraudulent scheme to account for the transactions as minor sale-leasebacks, the financial statements that URI incorporated into its periodic filings and other materials disseminated to the investing public were materially false and misleading. For the second quarter of 2001, instead of deferring any gain until all its outstanding obligations related to the sales were resolved, URI improperly recorded gains of approximately $6.29 million and $6.9 million. In addition to recognizing the profit prematurely, the gains that URI recorded were inflated by $2 million and $3.3 million. Similarly, for the fourth quarter of 2001, URI improperly recorded gains of approximately $6.1 million and $1 million from the two December transactions. For the full fiscal year 2001, URI improperly recorded gains of approximately $20 million. In addition, of the approximately $20 million prematurely recognized by the Company, approximately $11.5 million represented inflated profits.

53. As a result of the fraudulently reported gains, URI was able to meet the Company's earnings guidance and analyst expectations for the second quarter 2001 and for the fourth quarter and full year 2001.

The March 2002 Transaction

54. Nolan and Milne initiated the last of the fraudulent minor sale-leaseback transactions in March 2002, once again in order to allow the Company to meet earnings

expectations. The deal was negotiated directly between URI and Manufacturer C, with no third-party involvement.

55. Pursuant to a term sheet prepared by Manufacturer C and sent to URI, the Company sold the manufacturer used equipment for $2 million and then leased it back for 8 months. Because Manufacturer C valued the equipment at approximately $1 million, creating a $1 million shortfall, URI agreed to purchase from Manufacturer C $5 million in new equipment, with the shortfall covered through a combination of an undisclosed "premium" in the purchase price of the new equipment and URI foregoing a discount. URI recognized an immediate profit for the quarter ending March 31, 2002, of approximately $1 million.

56. As with the other sale-leaseback transactions, Nolan and Milne hid from URI's auditor the link between the sale-leaseback transaction and the purchase of new equipment and thus URI's continuing obligations under the purchase agreement.

Internal Controls

57. The sale-leaseback transactions reflected deficiencies in the Company's internal controls and defects in its books and records at the time the transactions were completed. Among other things, throughout the course of the transactions, URI did not have a mechanism for identifying whether particular purchases related back to prior transactions. In addition, URI did not maintain sufficient documents to determine whether payments to vendors were being properly recorded in the Company's general ledger.

URI's False Filings

58. On February 28, 2001, URI issued a press release that included materially overstated results for the fourth quarter and full year 2000. On March 22, 2001, the Company filed its FY 2000 Form 10-K, which also contained the fraudulent financial results for the fourth quarter and full year 2000.

59. On February 26, 2002, URI issued a press release that included the materially overstated results for the fourth quarter and full year 2001. On March 29, 2002, the Company filed its FY 2001 Form 10-K, which also contained those fraudulent financial results.

60. In 2001 and 2002, URI filed Forms S-4 and S-8 registration statements with the Commission, which incorporated the materially misstated financial results from FY 2000 and FY 2001.

61. URI restated for these errors in its FY 2004 Form 10-K.

The Trade Packages

62. From the fourth quarter of 2000 through 2002, URI sold blocks of used equipment to certain of its equipment vendors, usually in anticipation of subsequent purchases of equipment from those vendors. These block sales are generally referred to as "trade packages."

63. In response to pressure to meet earnings exerted by senior management, in some of the trade packages, URI arranged with the vendors to sell the used equipment for an amount in excess of fair value. In exchange for receiving a "premium" on the used equipment sold, URI provided inducements to the vendors, including agreeing to pay a premium on subsequent purchases of new equipment, foregoing all or a portion of future

marketing allowances or credits, and agreeing to purchase more equipment than it otherwise would have purchased.

64. Because URI lacked sufficient internal controls that would have identified related sales and subsequent purchases from a vendor, records were not created that would have permitted the linkage of the sales and inducements. Consequently, URI cannot quantify how much of its revenue and gross profit was attributable to the fraudulent trade packages. In its FY 2004 restatement, URI reported that revenue for all the trade packages during this period (including both legitimate and illegitimate deals) totaled $38 million, while gross profits totaled $9 million.

65. As a result of improperly recording the premiums received on the used equipment sold, URI also violated the reporting, record-keeping and internal control provisions of the federal securities laws.

Other Improper Accounting

66. As described more fully below, URI engaged in various other improper accounting practices, as a result of which the Company also violated the reporting, record-keeping and internal control provisions of the federal securities laws.

Improper Valuation of Acquired Assets

67. URI was formed and began operations in 1997, with the acquisition of six equipment rental companies. During the subsequent three year period, the Company grew rapidly through roll-up acquisitions of approximately 230 other existing equipment rental companies. Between 1997 and August 2000, URI valued acquired rental equipment in two ways: approximately half was valued internally by URI employees,

many of whom came from the companies acquired by URI, and the remaining half was valued by third-party appraisers.

68. GAAP requires that an acquiring company recognize the assets acquired and the liabilities assumed from an acquired company based on their fair values at the time of acquisition. Any excess between the cost of an acquired asset and the sum of the fair values of tangible and identifiable intangible assets less liabilities should be recognized as goodwill.

69. URI's practices in the valuation process were deficient in various ways and led to the understatement of equipment valuations and consequent overstatement of income when the undervalued equipment was resold. With regard to internal valuations, there was no uniform guidance given to field personnel, who were often inadequately trained or supervised, as to what the GAAP standards were or how they were to be applied to the valuation of acquired equipment. No materials were distributed to field personnel instructing them as to how they should perform equipment valuations in accordance with GAAP. To the contrary, corporate personnel distributed to at least some field personnel memoranda – not shared with the Company's outside auditor - recommending the use of clearly improper valuations methods. Contrary to GAAP, some of the memoranda suggested that equipment be valued so as to realize a predetermined gross margin when it was sold. Other guidance included in certain versions of the memoranda recommended that field personnel underestimate the fair value of equipment rather than overestimate that value.

70. As a result of these practices, URI used improper and inconsistent methodologies in its valuations. For example, at times, consistent with the guidance in

the memoranda distributed to some field personnel (which was contrary to GAAP), acquired assets with fair market values in excess of zero but less than $500 were improperly assigned a zero basis. At other times, there was a failure to apply GAAP consistently with respect to the treatment of gains and losses on the sale of acquired equipment with opening balance sheet values higher than zero.

71. The deficiencies in its historical purchase accounting practices between 1997 and August 2000 resulted in inaccurate values being ascribed to rental equipment that the Company acquired in purchase business combinations and in some cases the valuations assigned by the Company were below fair value. As a result, URI's books and records and financial statements and reports were inaccurate.

72. The books and records prepared by URI relating to acquisitions made between 1997 and 2000 are not now sufficient to determine to what extent individual assets were undervalued or to permit an accurate revaluing of the equipment acquired through purchase business combinations during that period. As a result of the practices described above, and not taking into account the impact of the Company's goodwill impairment charges, the Company's pre-tax income was overstated by as much as $53 million for the fiscal years 1998 through 2000.

Improper Use of Acquisition Reserves

73. Between 1998 and 2001, URI engaged in numerous improper accounting practices involving its acquisition reserves. In connection with its recording of the opening balance sheets for entities it acquired, URI improperly commingled purchase accounting reserves with the company's existing operating reserves. This error enabled URI to utilize excess amounts attributable to these acquisition-related reserves to offset

its normal operating costs and increase its net income before tax, a practice that is not in conformity with GAAP. The Company's documentation is not sufficient to determine the extent to which its acquisition reserves were improperly utilized to offset operating expenses.

74. Instead of eliminating the accounts receivable acquisition reserves after the allocation period (presumed to last no longer than one year), URI left the acquisition reserves on its books and commingled acquisition related accounts receivable reserves with operating accounts receivable reserves, enabling the company to offset improperly post-acquisition bad debt expense. The commingling also enabled the Company to reverse improperly excess acquisition accounts receivable reserves into income rather than against goodwill, thereby resulting in an increase to its net income before tax. By not properly accounting for the accounts receivable acquisition reserves, URI overstated its net income before tax for the period 1998 – 2001 by as much as $14 million.

75. URI also commingled its inventory acquisition reserves with its inventory operating reserves, enabling the Company to use overstated acquisition inventory reserves to offset inappropriately inventory obsolescence and shrinkage charges, thereby improperly increasing the company's net income before tax by as much as $11 million for the period 1998 to 2001.

76. URI also recognized accruals primarily to account for liabilities that were part of the acquired entities, as well as in certain cases to reserve for non-compete agreements. These accruals were commingled with accruals that were set up in URI's normal course of business, enabling the Company to offset inappropriately post-acquisition operating expenses, thereby resulting in inflated net income before tax. As a

result, based on the total amount of such accruals recognized, URI overstated its net income before tax by as much as $24 million for the period 1998 - 2001.

77. URI also established accrued acquisition reserves to offset post acquisition expenses. These accruals included general reserves which do not comply with GAAP. The Company's present documentation is insufficient to permit it to determine to what extent such accruals were used inappropriately to offset post-acquisition operating expenses. As a result, based on the total amount of such reserves, the usage of which the company is unable now to trace, URI overstated its net income before tax by as much $26 million for the period 1998 - 2001.

Improper Accounting for Customer Relationships

78. URI improperly allocated a portion of the purchase price of business acquisitions made since July 1, 2001 to goodwill instead of recording it as a separate intangible asset-customer relationships, pursuant to GAAP. Recognizing that it had previously improperly accounted for a portion of the purchase price for these acquisitions, in its FY 2004 Form 10-K filed with the Commission, URI restated for those errors. As a result, URI decreased originally reported pre-tax income for 2003 and 2002 by $2 million and $1 million, respectively.

Improper Use of Self-Insurance Reserves

79. URI improperly accounted for self-insurance reserves. Self-insurance reserves reflect the Company's estimate of the liability associated with Worker's Compensation claims and claims by third-parties for damage or injury caused by the Company. Prior to 2004, URI's methodology for developing self-insurance reserves was based on management's estimate of ultimate liability which was developed without

obtaining actuarial valuations. In 2004, URI adopted an estimation approach based on third-party actuarial calculations.

80. Based on the actuarial calculations performed by the Company's third-party actuaries in late 2004 and 2005, management concluded that the estimation process URI previously used did not adequately take into account certain factors such as (1) future changes in the cost of claims over time; (2) the cost of inflation; and (3) the cost of incurred but not reported claims. As a result, URI restated its previously reported results to reflect this correction of an accounting error. The restatement for the self-insurance reserves had the impact of increasing (decreasing) URI's originally reported pre-tax income for 2003, 2002, 2001, 2000 and for periods prior to 2000 by $8 million, ($13) million, ($11) million, ($18) million, and ($12) million, respectively.

Improper Accounting for Income Tax

81. Pursuant to GAAP, deferred tax accounts must be revalued each year for any changes in tax laws or rates and the impact from any changes in the applicable effective tax rate must be included in income from continuing operations for the period. As a result of an analysis of its deferred tax accounts, conducted in connection with the preparation of its FY 2004 Form 10-K, URI determined that those accounts had not been adjusted for any changes in its year-to-year effective tax rate, and as a result, was not in conformity with GAAP. Based on its analysis, URI concluded that it had improperly understated its income tax provision and overstated its net income after tax for 2003, 2001, 2000, and periods prior to 2000 and understated its net income after tax for 2002.

82. In addition, URI's analysis concluded that historically its deferred tax asset relating to state net operating losses (NOLs) had been improperly calculated at a

consolidated level (whereby gross deferred activity for URIs consolidated group was developed and an overall state effective tax rate was applied). URI operates through a number of legal entities in a variety of states, and those legal entities are subject to different state income tax filing methods. URI's prior state NOL calculation at a consolidated level understated the total NOLs resulting from URI's various state filing combinations: income calculated under one state filing method was incorrectly off-set against the losses calculated under another state filing method thereby understating the amount of state NOLs generated. URI's improper calculations resulted in an income tax benefit that had not been previously recorded and resulted in URI overstating its income tax provision and understating its net income after tax for 2003, 2002, 2001, and 2000.

83. In 2003 URI concluded its deferred tax liability recorded on the balance sheet was overstated by approximately $8.4 million in its original filings. At the same time, URI concluded that $8.4 million was required to cover known tax exposures relating primarily to ongoing IRS audits. URI offset the tax exposure with the excess deferred tax liability, and as a result, no income tax expense was recorded on URI's books for the $8.4 million. Subsequently, however, during the Company's analysis of its deferred tax liability account, URI determined that the deferred tax liability had not been overstated $8.4 million as originally believed and should not have been removed and used to offset the $8.4 million expense.

84. URI restated for these errors in its FY 2004 Form 10-K. Overall, URI's restatement for income taxes had the impact of increasing (decreasing) originally reported net income after tax for 2003, 2002, 2001 and 2000, and for periods prior to

FY2000 by ($10) million, $1 million, ($3) million, ($2) million and ($4) million, respectively.

Improper Accounting for Equipment Rental Revenues

85. The company originally reported its recognition of equipment rental revenues based on the minimum amounts which became due and payable under the terms of applicable rental agreements. In the filing of its FY 2004 Form 10-K, URI determined that the equipment rental revenue should have been recognized on a straight-line basis, and restated its previously reported results to reflect this correction of an error. The restatement had the impact of increasing (decreasing) originally reported pre-tax income for 2003, 2002, 2001, and 2000 and for periods prior to 2000 by ($2) million, ($3) million, $6 million, $4 million and ($27) million, respectively.

FIRST CLAIM FOR RELIEF
Violations of the Antifraud Provision of the Securities Act
(Section 17(a))

86. As set forth in paragraphs 1 through 65, which are realleged and incorporated by reference as if set forth fully herein, URI recognized revenue in connection with a series of fraudulent sale-leaseback transactions and trade packages in violation of the Securities Act.

87. At the times alleged in this Complaint, URI, in connection with the offer or sale of any security, and by the use of the means and instruments of transportation and communication in interstate commerce or by the use of the mails, directly and indirectly, (a) employed devices, schemes and artifices to defraud; (b) obtained money or property by means of any untrue statement of material facts or omissions of material facts necessary in order to make the statements made, in the light of the circumstances in

which they were made, not misleading; or (c) engaged in acts, practices or courses of business which operated or would operate as a fraud or deceit upon purchasers of securities.

88. By reason of the conduct described above, URI violated Section 17(a) of the Securities Act of 1933 [15 U.S.C. §77q(a)].

SECOND CLAIM FOR RELIEF
Violations of the Antifraud Provision of the Exchange
(Section 10(b) and Rule 10b-5 thereunder)

89. As set forth in paragraphs 1 through 65, which are realleged and incorporated by reference as if set forth fully herein, URI recognized revenue in connection with a series of fraudulent sale-leaseback transactions and trade packages in violation of the Exchange Act.

90. At the times alleged in this Complaint, URI, in connection with the purchase or sale of any security, by the use of the means and instruments of transportation and communication in interstate commerce or by the use of the mails, or of any facility of any national securities exchange, directly or indirectly: (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material facts or omissions of material facts necessary in order to make the statements made, in the light of the circumstances in which they were made, not misleading; or (c) engaged in acts, practices or courses of business which operated or would operate as a fraud or deceit upon purchasers of securities.

91. By reason of the conduct described above, URI violated Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)], and Rule 10b-5 [17 C.F.R. §240.10b-5], thereunder.

<u>THIRD CLAIM FOR RELIEF</u>
Violations of the Reporting Provisions of the Exchange Act
(Section 13(a) and Rules 12b-20, 13a-1, 13a-11 and 13a-13 thereunder)

92. Paragraphs 1 through 85 are realleged and incorporated by reference as if set forth fully herein.

93. At the times alleged in this Complaint, URI, whose securities were registered pursuant to Section 12 of the Exchange Act [15 U.S.C. §78l], failed to file annual, current, and quarterly reports with the Commission that were true and correct, and failed to include material information in its required statements and reports as was necessary to make the required statements, in the light of the circumstances under which they were made, not misleading.

94. By reason of the conduct described above, URI violated Section 13(a) of the Exchange Act [15 U.S.C. §78m(a)], and Rules 12b-20, 13a-1, 13a-11 and 13a-13 [17 C.F.R. §§240.12b-20, 13a-1, 13a-11 and 13a-13], thereunder.

<u>FOURTH CLAIM FOR RELIEF</u>
Violations of the Books and Records and Internal Control Provisions of the Exchange Act
(Sections 13(b)(2)(A) and 13(b)(2)(B))

95. Paragraphs 1 through 85 are realleged and incorporated by reference as if set forth fully herein.

96. From at least 2000 to 2003, URI, whose securities were registered pursuant to Section 12 of the Exchange Act [15 U.S.C. §78l]:

a) failed to make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflected the transactions and dispositions of its assets;

b) failed to devise and maintain a system of internal controls sufficient to provide reasonable assurances that (i) transactions were recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and (ii) to maintain accountability for assets.

97. By reason of the conduct described above, URI violated Sections 13(b)(2)(A) and (B) of the Exchange Act [15 U.S.C. §§78m(b)(2)(A) and (B)].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court:

I.

Permanently restrain and enjoin URI, its agents, officers, servants, employees, attorneys, assigns and all those persons in active concert or participations with them, who receive actual notice of the Judgment by personal service or otherwise, and each of them from, directly or indirectly, engaging in the transactions, acts, practices an courses of business alleged above, or in conduct of similar purport and object, in violation of Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], Sections 10(b), 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§78j(b), 78m(a) and 78m(b)(2)(A) and (B)], and Rules 10b-5, 12b-20, 13a-1, 13a-11 and 13a-13 [17 C.F.R. §§240.10b-5, 12b-20, 13a-1, 13a-11 and 13a-13], thereunder;

II.

Order URI to disgorge ill-gotten gains from the conduct alleged herein and to pay prejudgment interest thereon;

III.

Order URI to pay a civil penalty pursuant to Section 20(d) of the Securities Act [15 U.S.C. §77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. §78u(d)(3)]; and

IV.

Grant such other relief as this Court may deem just and appropriate

Dated: August____, 2008

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