UNITED RENTALS NORTH AMERICA INC
Form 424B2
October 25, 2010

Filed pursuant to Rule 424(b)(2)
Registration Statement Nos. 333-166214
and 333-160884

Prospectus Supplement
(To Prospectus dated May 7, 2010)

$750,000,000

UNITED RENTALS (NORTH AMERICA), INC.

8.375% SENIOR SUBORDINATED NOTES DUE 2020

We will pay interest on the notes semi-annually in cash in arrears on March 15 and September 15 of each year, starting on March 15, 2011. The notes will mature on September 15, 2020. We may redeem some or all of the notes on or after September 15, 2015 at the redemption prices set forth in this prospectus supplement, plus accrued and unpaid interest, if any, to the redemption date. We may also redeem some or all of the notes at any time prior to September 15, 2015, at a price equal to 100% of the aggregate principal amount of the notes to be redeemed, plus a make-whole premium and accrued and unpaid interest, if any, to the redemption date. In addition, at any time on or prior to September 15, 2013, we may redeem up to 35% of the aggregate principal amount of the notes with the net cash proceeds of certain equity offerings at a price equal to 108.375% of the aggregate principal amount of the notes plus accrued and unpaid interest, if any, to the redemption date.

The notes will be our unsecured senior subordinated obligations and will rank junior in right of payment to all our existing and future senior indebtedness, senior to any indebtedness expressly subordinated to the notes and equally with all existing and future senior subordinated indebtedness. Our obligations under the notes will be guaranteed on a senior subordinated basis by our parent company, United Rentals, Inc., and, subject to limited exceptions, our current and future domestic subsidiaries. The guarantees will rank junior in right of payment to all of the guarantors' existing and future senior indebtedness, senior to any indebtedness of the guarantors that is expressly subordinated to the guarantees and equally with all existing and future senior subordinated indebtedness of the guarantors. Our foreign subsidiaries will not be guarantors.

For a more detailed description of the notes, see "Description of the Notes."

The notes offered by this prospectus supplement will not be listed on any securities exchange. Currently, there is no public market for the notes.

Investing in the notes involves risks. See "Risk Factors" beginning on page S-14 of this prospectus supplement and "Item 1A Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2009, which is incorporated by reference herein.

	Per Note		*Total*
Public offering price	*100.00%*	*$*	*750,000,000*
Underwriting discounts and commissions	*2.25%*	*$*	*16,875,000*
Proceeds, before expenses, to us	*97.75%*	*$*	*733,125,000*

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the notes in book-entry form only, through the facilities of The Depository Trust Company, on October 26, 2010.

Joint Book-Running Managers

Morgan Stanley *BofA Merrill Lynch* *Wells Fargo Securities*

Co-Managers

Barclays Capital *Credit Agricole CIB* *Scotia Capital*

BNY Mellon Capital Markets, LLC *HSBC* *Morgan Keegan* *RBS*

October 21, 2010

TABLE OF CONTENTS

Prospectus Supplement

	Page
About This Prospectus Supplement	S-ii
Where You Can Find More Information	S-ii
Incorporation of Certain Information by Reference	S-iii
Cautionary Statement Regarding Forward-Looking Statements	S-iii
Industry and Market Data	S-iv
Summary	S-1
Risk Factors	S-14
Use of Proceeds	S-22
Capitalization	S-23
Description of Our Other Indebtedness	S-25
Description of the Notes	S-31
Certain Material United States Federal Income Tax Considerations	S-80
Underwriting (Conflicts of Interest)	S-86
Validity of Securities	S-89
Prospectus	
About This Prospectus	2
Where You Can Find More Information	2
Incorporation of Certain Information by Reference	2
Forward-Looking Statements	4
The Company	5
Risk Factors	6
Ratio of Earnings to Fixed Charges	7
Use of Proceeds	8
Summary Description of the Securities We May Issue	9
Description of Debt Securities	10
Description of Holdings' Common Stock	22
Description of Holdings' Preferred Stock	25
Description of Warrants	27
Plan of Distribution	31
Validity of Securities	33
Experts	33

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus supplement and the accompanying prospectus. You must not rely on any unauthorized information or representations. This prospectus supplement and the accompanying prospectus are an offer to sell only the notes offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus supplement and the accompanying prospectus is current only as of their respective dates.

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering of notes and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering. If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information contained in this prospectus supplement.

Unless otherwise indicated, (1) the term "URNA" refers to United Rentals (North America), Inc., the issuer of the notes, and not to any of its subsidiaries, (2) the term "Holdings" refers to United Rentals, Inc., the parent of URNA and a guarantor of the notes, and not to any of its subsidiaries, and (3) the terms "United Rentals," "we," "us," our," "our company" or "the Company" refer to Holdings and its subsidiaries.

You should rely only on the information contained, or incorporated by reference, in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with information that is different. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell the notes in any jurisdiction where the offer or sale is not permitted or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. You should not assume that the information in this prospectus supplement, the accompanying prospectus or any document incorporated by reference is accurate or complete as of any date other than the date of the applicable document. Our business, financial condition, results of operations and prospects may have changed since that date.

WHERE YOU CAN FIND MORE INFORMATION

We are required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). You may read and copy any documents filed by us with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Our filings with the SEC are also available to the public through the SEC's Internet website at http://www.sec.gov.

We also make available on our Internet website, free of charge, our annual, quarterly and current reports, including any amendments to these reports, as well as certain other SEC filings, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Our website address is http://www.ur.com. The information contained on our website is not incorporated by reference into this document.

We have filed with the SEC a registration statement on Form S-3 relating to the notes offered by this prospectus supplement and the accompanying prospectus. This prospectus supplement and the accompanying prospectus are parts of that registration statement and do not contain all of the information in the registration statement. Whenever a reference is made in this prospectus supplement or the accompanying prospectus to a contract or other document of ours, please be aware that the reference is only a summary and that you should refer to the exhibits that are a part of the registration statement and the documents incorporated by reference therein for a copy of that contract or other document. You may review a copy of the registration statement at the SEC's Public Reference Room in Washington, D.C., as well as through the SEC's Internet website listed above.

Table of Contents

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC's rules allow us to "incorporate by reference" the documents that we file with the SEC. This means that we can disclose important information to you by referring you to those documents. Any information referred to in this way is considered part of this prospectus supplement from the date we file that document. Any reports filed by us with the SEC after the date of this prospectus supplement will automatically update and, where applicable, supersede any information contained in this prospectus supplement.

We incorporate by reference into this prospectus supplement the following documents or information filed by us with the SEC (other than, in each case, documents (or portions thereof) or information deemed to have been furnished and not filed in accordance with SEC rules and regulations):

(1) Annual Report on Form 10-K for the fiscal year ended December 31, 2009, filed on February 3, 2010;

(2) Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, filed on April 21, 2010;

(3) Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, filed on July 20, 2010;

(4) Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, filed on October 20, 2010;

(5) Current Report on Form 8-K, dated March 11, 2010, filed on March 11, 2010;

(6) Current Report on Form 8-K, dated May 11, 2010, filed on May 12, 2010; and

(7) All documents filed by us pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act on or after the date of this prospectus supplement until we sell all of the securities that may be offered by this prospectus supplement.

We will provide, free of charge, to each person, including any beneficial owner, to whom this prospectus supplement is delivered, upon his or her written or oral request, a copy of any or all documents referred to above which have been or may be incorporated by reference into this prospectus supplement, excluding exhibits to those documents, unless such exhibits are specifically incorporated by reference into those documents. You can request those documents from United Rentals, Inc. at Five Greenwich Office Park, Greenwich, Connecticut 06831, Attention: Corporate Secretary, telephone number (203) 622-3131.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement contains forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Such statements can be identified by the use of forward-looking terminology such as "believe," "expect," "may," "will," "should," "seek," "on-track," "plan," "project," "forecast," "intend" or "anticipate," or the negative thereof or comparable terminology, or by discussions of vision, strategy or outlook. You are cautioned that our business and operations are subject to a variety of risks and uncertainties, many of which are beyond our control, and, consequently, our actual results may differ materially from those projected by any forward-looking statements. Factors that could cause our actual results to differ materially from those projected include, but are not limited to, the following:

- decreases in North American construction and industrial activities, which have significantly affected revenues and, because many of our costs are fixed, our profitability, and which may further reduce demand and prices for our products and services;

- inability to benefit from government spending associated with stimulus-related construction projects;

our highly leveraged capital structure, which requires us to use a substantial portion of our cash flow for debt service and can constrain our flexibility in responding to unanticipated or adverse business conditions;

noncompliance with financial or other covenants in our debt agreements, which could result in our lenders terminating our credit facilities and requiring us to repay outstanding borrowings;

inability to access the capital that our businesses or growth plans may require;

inability to manage credit risk adequately or to collect on contracts with a large number of customers;

the outcome or other potential consequences of regulatory matters and commercial litigation;

incurrence of additional expenses (including indemnification obligations) and other costs in connection with litigation, regulatory and investigatory matters;

increases in our maintenance and replacement costs as we age our fleet, and decreases in the residual value of our equipment;

inability to sell our new or used fleet in the amounts, or at the prices, we expect;

the possibility that companies we've acquired or may acquire could have undiscovered liabilities, may strain our management capabilities or may be difficult to integrate;

turnover in our management team and inability to attract and retain key personnel;

rates we can charge and time utilization we can achieve being less than anticipated;

costs we incur being more than anticipated, and the inability to realize expected savings in the amounts or time frames planned;

dependence on key suppliers to obtain equipment and other supplies for our business on acceptable terms;

competition from existing and new competitors;

disruptions in our information technology systems;

the costs of complying with environmental and safety regulations;

- labor disputes, work stoppages or other labor difficulties, which may impact our productivity, and potential enactment of new legislation or other changes in law affecting our labor relations or operations generally;
- exchange rate fluctuations;
- shortfalls in our insurance coverage; and
- other factors discussed in the section titled "*Item 1A Risk Factors*" and elsewhere in our most recent Annual Report on Form 10-K.

We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances after the date any such statement is made.

INDUSTRY AND MARKET DATA

We obtained the industry, market and competitive position data used throughout this prospectus supplement and in the documents incorporated by reference herein from our own internal estimates and research, as well as from industry publications and research, surveys and studies conducted by third parties. Industry publications, studies and surveys generally state that they have been obtained from sources believed to be reliable, although they do not guarantee the accuracy or completeness of such information. While we believe that each of these publications, studies and surveys is reliable, we have not independently verified industry, market and competitive position data from third-party sources. While we believe our internal business research is reliable and the market definitions are appropriate, neither such research nor these definitions have been verified by any independent source.

Table of Contents

SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference. This summary does not contain all the information you should consider before investing in the notes. You should read this entire prospectus supplement and the accompanying prospectus, including the information incorporated by reference in this prospectus supplement and the accompanying prospectus, including the financial data and related notes, before making an investment decision.

Our Company

United Rentals is the largest equipment rental company in the world with an integrated network of 549 rental locations in the United States and Canada. We offer for rent approximately 2,900 classes of rental equipment to customers that include construction and industrial companies, manufacturers, utilities, municipalities, homeowners, and government entities. Our revenues are derived from the following sources: equipment rentals, sales of used rental equipment, sales of new equipment, contractor supplies sales and service and other. For the nine months ended September 30, 2010, equipment rental revenues represented 82% of our total revenues.

As of September 30, 2010, our fleet of rental equipment included approximately 220,000 units having an original equipment cost, based on initial consideration paid, of $3.8 billion. The fleet includes:

General construction and industrial equipment, such as backhoes, skid-steer loaders, forklifts, earth moving equipment and material handling equipment;

Aerial work platforms, such as boom lifts and scissor lifts;

General tools and light equipment, such as pressure washers, water pumps, heaters and hand tools; and

Trench safety equipment, such as trench shields, aluminum hydraulic shoring systems, slide rails, crossing plates, construction lasers and line testing equipment for underground work.

Our principal executive offices are located at Five Greenwich Office Park, Greenwich, Connecticut 06831, and our telephone number is (203) 622-3131.

Industry Overview

We serve four principal end-markets in the North American equipment rental industry: commercial construction, infrastructure, industrial, and residential. Based on an analysis of our charge customer's Standard Industrial Classification, or SIC, codes, and as measured by our equipment rental revenues for the first nine months of 2010: commercial (or private non-residential) construction rentals for the construction and remodeling of office, retail, lodging and healthcare and other commercial facilities represent approximately 56% of our revenues; infrastructure rentals related to the building of public structures such as bridges, highways, power plants and airports represent approximately 17% of our revenues; industrial rentals to manufacturers, chemical companies, paper mills, railroads, ship builders, utilities and other industries represent approximately 20% of our revenues; and residential rentals for the construction and renovation of homes represent approximately 7% of our revenues.

The latter part of 2008 through 2009 was challenging for both our company and the U.S. equipment rental industry as a whole. As the financial crisis led into a recession, credit restrictions and the macro economy triggered a severe downturn in non-residential construction activity of unprecedented depth and duration. Late in the first quarter of 2010, we began to see signs of a potential recovery in our end markets; this has continued through the third quarter, becoming more pronounced by June. We believe that our performance in the second and third quarters which includes record time utilization (which reflects the amount of time equipment is on rent divided by the amount of time we have owned the equipment) in the third quarter of 71.3% reflects both seasonal and cyclical improvements in our operating environment.

Although there is no certainty that these trends will continue, we believe that our strategy, coupled with our competitive advantages of size, disciplined purchasing power, industry experience, superior customer service capabilities and strong balance sheet, will strengthen our leadership position in the recovery.

Although there are significant near-term challenges that may continue to suppress equipment rental demand, we believe that the long-term growth prospects for the equipment rental industry in North America are favorable. Beyond the dynamics of an economic recovery, we believe that expansion will also be driven by the elevation of the industry's profile, in particular for the larger equipment rental companies which have the geographic footprint necessary to service large national accounts, and end-markets that increasingly appreciate the many benefits of renting equipment rather than owning it. These benefits include:

- avoidance of large capital investments required for new equipment purchases;
- access to the right equipment for a particular job;
- elimination of many storage, maintenance, repair and transportation costs; and
- access to the latest equipment technologies and safety developments without the need for continuous investment.

Competitive Advantages

We believe that we benefit from the following competitive advantages:

Large and Diverse Rental Fleet. We manage our rental fleet, which is the largest and most comprehensive in the industry, utilizing a life-cycle approach that focuses on satisfying customer demand and optimizing utilization levels. Additionally, as part of this life-cycle approach, we closely monitor repairs and maintenance expense and can anticipate, based on our extensive experience with this type of equipment, the optimum time to dispose of an asset.

Our large and diverse fleet allows us to serve large customers that require substantial quantities and/or wide varieties of equipment. In addition, we believe our intense focus on serving national account and other large customers with a multi-regional presence should allow us to improve our performance and enhance our market leadership position.

Significant Purchasing Power. We purchase large amounts of equipment, contractor supplies and other items, which enables us to negotiate favorable pricing, warranty and other terms with our vendors.

National Account Program. Our national account sales force is dedicated to establishing and expanding relationships with large companies, particularly those with a national or multi-regional presence. We offer our national account customers the benefits of a consistent level of service across North America, a wide selection of equipment and a single point of contact for all their equipment needs. Revenues from national account customers were approximately $445 million, $565 million and $675 million for the nine months ended September 30, 2010 and the years ended December 31, 2009 and 2008, respectively, and represented approximately 27%, 24% and 21% of our total revenues, respectively. With our continued focus on large national accounts, we expect this percentage to increase over time.

Operating Efficiencies. We benefit from the following operating efficiencies:

- *Equipment Sharing Among Branches.* We generally group our branches into districts of six to ten locations that are in the same geographic area. Each branch within a region can access equipment located elsewhere in the region. This sharing increases equipment utilization because equipment that is idle at one branch can be marketed and rented through other branches. Additionally, fleet sharing allows us to be more disciplined with our capital spend.

National Call Center. We have a national call center in Tampa, Florida that handles all 1-800-UR-RENTS telephone calls without having to route them to individual branches. This

provides us with the ability to provide a more uniform quality experience to customers, manage fleet sharing more effectively and free up branch employee time.

Consolidation of Common Functions. We reduce costs through the consolidation of functions that are common to our branches, such as accounts payable, payroll, benefits and risk management, information technology and credit and collection.

Information Technology Systems. We have a wide variety of information technology systems, some proprietary and some licensed, that support our operations. This information technology infrastructure facilitates our ability to make rapid and informed decisions, respond quickly to changing market conditions and share rental equipment among branches. We have an in-house team of information technology specialists that supports our systems.

Strong Brand Recognition. As the largest equipment rental company in the United States, we have strong brand recognition, which helps us to attract new customers and build customer loyalty.

Geographic and Customer Diversity. We have 549 rental locations in 48 states and ten Canadian provinces and serve customers that range from Fortune 500 companies to small businesses and homeowners. We believe that our geographic and customer diversity provides us with many advantages including:

- enabling us to better serve national account customers with multiple locations;

- helping us to achieve favorable resale prices by allowing us to access used equipment resale markets across North America; and

- reducing our dependence on any particular customer.

Strong and Motivated Branch Management. Each of our full-service branches has a branch manager who is supervised by a district manager. We believe that our managers are among the most knowledgeable and experienced in the industry and we empower them, within budgetary guidelines, to make day-to-day decisions concerning branch matters. Each regional office has a management team that monitors branch, district and regional performance with extensive systems and controls, including performance benchmarks and detailed monthly operating reviews.

Employee Training Programs. We are dedicated to providing training and development opportunities to our employees. In 2009, our employees enhanced their skills through over 325,000 hours of training, including equipment-related training from our suppliers and online courses covering a variety of subjects.

Risk Management and Safety Programs. Our risk management department is staffed by experienced professionals directing the procurement of insurance, managing claims made against the Company, and developing loss prevention programs to address workplace safety, driver safety and customer safety. The department's primary focus is on the protection of the employees, assets and net income of the Company, and protecting the Company from liability for accidental loss.

Strategy

For the past several years, our strategy has focused on establishing a superior standard of customer service, particularly with larger accounts, while generating significant free cash flow and positioning the business to grow our earnings at higher margins. Three key elements of this strategy are: a consistent focus on our core rental business; the optimization of our rental fleet and branch network, both in terms of composition and management; and greater efficiency with significant reductions in our operating costs. Although the past several years have been challenging for both our company and the U.S. equipment rental industry, our achievements in pursuing this strategy included:

- An increase in the proportion of our revenues that is derived from National Accounts from 21% in 2008 to 24% in 2009 and 27% in the nine months ended September 30, 2010;

S-3

Table of Contents

Full year free cash flow generation of $367 million in 2009, compared with $335 million in 2008. Free cash flow for the nine months ended September 30, 2010 of $144 million decreased $178 million as compared to the nine months ended September 30, 2009, primarily due to increased net rental capital expenditures (defined as purchases of rental equipment less the proceeds from sales of rental equipment) to meet increased demand. Free cash flow is not a measure of financial performance or liquidity under U.S. generally accepted accounting principles ("GAAP"), and should not be considered an alternative to net income (loss) or cash flow from operating activities as an indicator of operating performance or liquidity. For a reconciliation between net cash provided by operating activities continuing operations and free cash flow, see "*Summary Historical Consolidated Financial Data*";

Continued improvement in fleet management, including a record average in 2009 of $1.4 billion original equipment cost ("OEC") of fleet per quarter transferred among branches to deploy it in areas of greater earning potential. During the nine months ended September 30, 2010, an average of $1.5 billion OEC of fleet per quarter was transferred among branches;

A reduction in our employee headcount from approximately 9,900 at December 31, 2008 to approximately 8,000 at December 31, 2009 and approximately 7,400 at September 30, 2010;

A reduction in our network of rental locations from 628 branches at December 31, 2008 to 569 branches at December 31, 2009 and 549 branches at September 30, 2010;

A 2009 year-over-year reduction in cost of equipment rentals, excluding depreciation, of $227 million, or 20.0%, which partially offset the impact of lower equipment rental revenue in a weak construction environment. During the nine months ended September 30, 2010, cost of equipment rentals, excluding depreciation, decreased $11 million, or 1.6%, as compared to the nine months ended September 30, 2009 as the impact of our cost savings initiatives was partially offset by the impact of a 4.0 percentage point increase in time utilization, which resulted in increases in certain variable costs, such as repairs and maintenance, and delivery;

A 2009 year-over-year reduction in selling, general and administrative expenses of $101 million, or 19.8%. During the nine months ended September 30, 2010, selling, general and administrative expenses decreased $37 million, or 12.0%, as compared to the nine months ended September 30, 2009 and improved by 0.6 percentage points as a percentage of revenue; and

An improvement in the gross margin on sales of contractor supplies to 26.4% for 2009, compared to 23.6% for 2008. The gross margin on sales of contractor supplies was 30.1% for the nine months ended September 30, 2010.

In 2011, we will continue to focus on optimizing our core rental business, strengthening our customer service capabilities and disciplined cost controls. Additionally, we will focus on:

Further increasing the proportion of our revenues that is derived from national account and other large customers including industrial accounts. To the extent we are successful at increasing the proportion of our revenues derived from national account and other large customers, we believe that over the long-term we can improve our equipment rental gross margins and overall profitability as these accounts tend to have higher utilization levels and can be serviced more cost effectively than transactional customers;

Accelerating our pursuit of opportunities in the industrial marketplace, where we believe our depth of resources and branch footprint gives us a competitive advantage. Moreover, industrial equipment demand is subject to different cyclical pressures than construction demand, and is under-penetrated in terms of rental potential; and

Leveraging technology and training to improve rental rate performance.

Table of Contents

The Offering

Issuer United Rentals (North America), Inc.

Notes Offered $750,000,000 aggregate principal amount of 8.375% Senior Subordinated Notes due 2020.

Maturity September 15, 2020.

Interest 8.375% per annum, payable semi-annually in cash in arrears on March 15 and September 15, starting on March 15, 2011.

Ranking The notes will be senior subordinated obligations of URNA and will rank junior in right of payment to all our existing and future senior indebtedness, including borrowings under the senior secured asset-based revolving credit facility (the "ABL facility"), senior in right of payment to any future indebtedness expressly subordinated to the notes and equally in right of payment with all of URNA's existing and future senior subordinated debt.

As of September 30, 2010, on a pro forma basis reflecting the redemption of $93 million principal amount of our 1$\frac{7}{8}$% Convertible Senior Subordinated Notes due 2023 on October 20, 2010 and as adjusted for this offering and the assumed application of the estimated net proceeds therefrom, as described under "*Use of Proceeds*" and "*Capitalization*", the notes would have ranked:

- junior in right of payment to approximately $1.7 billion of senior indebtedness consisting of:
  - a. approximately $1.0 billion principal amount of URNA's unsecured senior obligations, comprised of (i) $500 million principal amount of 9.25% Senior Notes due 2019 and (ii) $500 million principal amount of 10.875% Senior Notes due 2016, and
  - b. approximately $712 million of URNA's secured obligations, comprised of (i) $578 million of outstanding borrowings of URNA under our ABL facility and (ii) URNA's guarantee obligations in respect of $134 million of the outstanding borrowings of one of our guarantor subsidiaries under our ABL facility;
- effectively junior to (a) $16 million of URNA's capital lease obligations and (b) URNA's guarantee obligations in respect of $8 million of capital lease obligations of our guarantor subsidiaries;
- effectively junior to approximately $240 million of indebtedness of our special purpose vehicle in connection with the accounts receivable securitization facility; and
- equally with approximately $22 million principal amount of our $\frac{7}{8}$% Convertible Senior Subordinated Notes due 2023.

Table of Contents

Most of URNA's U.S. receivable assets have been sold to a bankruptcy remote special purpose entity in connection with the accounts receivable securitization facility (the accounts receivable in the collateral pool being the lender's only source of payment under that facility).

Guarantees

The notes will be guaranteed on a senior subordinated basis by Holdings and, subject to limited exceptions, URNA's current and future domestic subsidiaries. The guarantees will be senior subordinated obligations of the guarantors and will rank junior in right of payment to all of the existing and future senior indebtedness of the guarantors, including the guarantors' borrowings under our ABL facility, senior in right of payment to any future indebtedness expressly subordinated to the guarantee and equally in right of payment with all existing and future senior subordinated debt of the guarantors. The notes will not be guaranteed by URNA's foreign subsidiaries and the guarantees will rank effectively junior to the liabilities of URNA's non-guarantor subsidiaries.

As of September 30, 2010, on a pro forma basis reflecting the redemption of $93 million principal amount of our 1$^{7}/_{8}$% Convertible Senior Subordinated Notes due 2023 on October 20, 2010 and as adjusted for this offering and the assumed application of the estimated net proceeds therefrom, as described under "*Use of Proceeds*" and "*Capitalization*", the guarantees would have ranked:

- junior in right of payment to approximately $1.9 billion of senior indebtedness consisting of:
  a. approximately $1.2 billion principal amount of the guarantors' senior obligations, comprised of (i) in the case of Holdings, $173 million principal amount of 4% Convertible Senior Notes due 2015 and (ii) the guarantors' guarantee obligations in respect of $500 million principal amount of URNA's 9.25% Senior Notes due 2019 and $500 million principal amount of URNA's 10.875% Senior Notes due 2016, and
  b. approximately $712 million of the guarantors' secured obligations, comprised of (i) $134 million of outstanding borrowings of one of our guarantor subsidiaries under our ABL facility and (ii) the guarantors' guarantee obligations in respect of $578 million of our outstanding borrowings under our ABL facility;
- effectively junior to $8 million of capital lease obligations of the guarantors;

Table of Contents

effectively junior to approximately $240 million of indebtedness of our special purpose vehicle in connection with the accounts receivable securitization facility; and

equally with the guarantors' guarantee obligations in respect of approximately $22 million principal amount of our $1^{7}/_{8}$% Convertible Senior Subordinated Notes due 2023.

With the exception of $173 million of senior indebtedness of Holdings, all of the senior obligations of the guarantors would also be senior obligations of URNA.

The non-guarantor subsidiaries of URNA accounted for approximately $77 million, or 15%, and $245 million, or 15%, of our adjusted EBITDA and total revenues, respectively, for the nine months ended September 30, 2010. The non-guarantor subsidiaries of URNA accounted for approximately $781 million, or 21%, and $317 million, or 8%, of our total assets and total liabilities, respectively, at September 30, 2010.

Optional Redemption

URNA may redeem some or all of the notes, at its option, at any time on or after September 15, 2015, at the redemption prices listed under "*Description of the Notes Optional Redemption*," plus accrued and unpaid interest, if any, to the redemption date. At any time prior to September 15, 2015, URNA may redeem some or all of the notes at a price equal to 100% of the aggregate principal amount of the notes to be redeemed, plus a "make-whole" premium and accrued and unpaid interest, if any, to the redemption date. In addition, at any time on or prior to September 15, 2013, URNA may, at its option, on one or

	more occasions, redeem up to 35% of the aggregate principal amount of the notes with the net cash proceeds of certain equity offerings at a price equal to 108.375% of the aggregate principal amount of the notes plus accrued and unpaid interest, if any, to the redemption date. See "*Description of the Notes Optional Redemption*."
Change of Control	If we experience specific kinds of change of control events, we must offer to repurchase the notes at a price of 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the purchase date. See "*Description of the Notes Change of Control*."
Certain Covenants	The indenture governing the notes contains certain covenants applicable to URNA and its restricted subsidiaries, including limitations on: (1) indebtedness; (2) restricted payments; (3) liens; (4) asset sales; (5) issuance of preferred stock of restricted subsidiaries; (6) transactions with affiliates; (7) dividend and other payment restrictions affecting restricted subsidiaries; (8) designations of unrestricted subsidiaries; (9) additional subsidiary guarantees; and (10) mergers, consolidations or sales of substantially all of our assets. Each of these covenants is subject to important exceptions and qualifications. See "*Description of the Notes Certain Covenants*" and " *Consolidation, Merger, Sale of Assets, etc.*"

Table of Contents

Use of Proceeds	We anticipate that we will receive approximately $732 million in net proceeds from the sale of the notes, after underwriting discounts and commissions and payment of estimated fees and expenses. We expect to use the net proceeds from this offering to redeem $468 million principal amount of our 7^{3}/4% Senior Subordinated Notes due 2013 and $253 million principal amount of our 7% Senior Subordinated Notes due 2014 and to pay for call premiums and accrued but unpaid interest to the date of redemption of such notes and to pay related expenses. We expect to temporarily apply the net proceeds of this offering to reduce outstanding borrowings under our ABL facility and the accounts receivable securitization facility during the redemption notice periods for our 7^{3}/4% Senior Subordinated Notes due 2013 and our 7% Senior Subordinated Notes due 2014. For information regarding our outstanding senior indebtedness, including maturity and applicable interest rates, see "*Capitalization*" and "*Description of Our Other Indebtedness*."
Conflicts of Interest	Because affiliates of Banc of America Securities LLC, Wells Fargo Securities, LLC, Credit Agricole Securities (USA) Inc. and Scotia Capital (USA) Inc. will each receive more than 5% of the net proceeds from this offering, this offering is being made in compliance with NASD Rule 2720 of the rules of the Financial Industry Regulatory Authority, Inc. ("FINRA"). Accordingly, Morgan Stanley & Co. Incorporated is assuming the responsibilities of acting as

	the qualified independent underwriter in pricing the offering and conducting due diligence. No underwriter having a conflict of interest under NASD Rule 2720 will confirm sales to any account over which the underwriter exercises discretionary authority without the specific written approval of the accountholder.
Book-Entry Form	The notes will be issued in book-entry form and will be represented by one or more global securities registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Beneficial interests in the notes will be evidenced by, and transfers will be effected only through, records maintained by participants in DTC.
No Public Trading Market	The notes are a new issue of securities for which there is no established market. Accordingly, there can be no assurance that a market for the notes will develop or as to the liquidity of any market that may develop. The underwriters have advised us that they currently intend to make a market in the notes. However, they are not obligated to do so and any market making with respect to the notes may be discontinued without notice. We do not intend to apply for listing of the notes on any securities exchange.
Trustee	The Bank of New York Mellon.

Table of Contents

Governing Law	The notes and the indenture under which they will be issued will be governed by the laws of the State of New York.
Risk Factors	Investing in the notes involves risks. You should carefully consider the information under the section titled "*Risk Factors*" beginning on page S-14 and all other information contained or incorporated by reference in this prospectus supplement prior to investing in the notes. In particular, we urge you to carefully consider the information set forth in the section titled "*Risk Factors*" and in "*Item 1A Risk Factors*" of our most recent Annual Report on Form 10-K for a description of certain risks you should consider before investing in the notes.

Table of Contents

Summary Historical Consolidated Financial Data

The following table presents our summary historical consolidated financial data for the periods indicated. The historical data for the years ended December 31, 2007, 2008 and 2009 and as of December 31, 2009 and 2008 has been derived from our audited historical consolidated financial statements and the notes to those statements, which are included in our most recent Annual Report on Form 10-K and incorporated by reference herein. The historical data as of December 31, 2007 has been derived from our audited historical consolidated financial statements and the notes to those statements, which are not incorporated by reference herein. The historical data as of and for the nine months ended September 30, 2009 and 2010 has been derived from our unaudited historical consolidated financial statements and the notes to those statements, which are included in our most recent Quarterly Report on Form 10-Q and incorporated by reference herein and which have been prepared on a basis consistent with our annual consolidated financial statements. In the opinion of management, such unaudited financial data reflects all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the results for the periods presented. The results of operations for the nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the full year or any future period. Our revenues, operating results and financial condition fluctuate from quarter to quarter, reflecting the seasonal rental patterns of our customers, with rental activity tending to be lower in the winter.

Our historical financial data is not necessarily indicative of our future performance. Because the data in this table is only a summary and does not provide all of the data contained in our financial statements, the information should be read in conjunction with the sections titled "*Use of Proceeds*" and "*Capitalization*" in this prospectus supplement, "*Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the financial statements and related notes thereto in our most recent Annual Report on Form 10-K, and "*Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the financial statements and notes thereto in our most recent Quarterly Report on Form 10-Q.

	Year Ended December 31,			Nine Months Ended September 30,	
(Dollars in millions)	**2007**	**2008**	**2009**	**2009**	**2010**
Statement of operations data:					
Revenues:					
Equipment rentals	$ 2,652	$ 2,496	$ 1,830	$ 1,380	$ 1,337
Sales of rental equipment	319	264	229	192	104
New equipment sales	230	179	86	63	59
Contractor supplies sales	378	212	121	95	73
Service and other revenues	136	116	92	71	67
Total revenues	3,715	3,267	2,358	1,801	1,640
Gross profit:					
Gross profit from equipment rentals	1,033	904	503	385	380
Gross profit from sales of rental equipment	84	66	7	3	30
Gross profit from new equipment sales	40	28	13	10	10
Gross profit from contractor supplies sales	72	50	32	25	22
Gross profit from service and other revenues	81	70	55	42	41
Total gross profit	1,310	1,118	610	465	483
Selling, general and administrative expenses	598	509	408	308	271

Charge related to settlement of SEC inquiry[d]	0	14	0	0	0
Restructuring charge[c]	0	20	31	25	19
Non-rental depreciation and amortization	54	58	57	42	43
Goodwill impairment charge[1]	0	1,147	0	0	0
Operating income (loss)	658	(630)	114	90	150
Interest expense, net[7]	187	174	226	154	170
Interest expense subordinated convertible debentures, net[8]	9	9	(4)	(6)	6
Other income, net[a][b]	(116)	0	(1)	0	(3)
Loss from discontinued operation, net of taxes	(1)	0	(2)	0	0
Net income (loss)	362	(704)	(62)	(36)	(5)

Table of Contents

(Dollars in millions)	Year Ended December 31, 2007	2008	2009	Nine Months Ended September 30, 2009	2010
Other financial data:					
Adjusted EBITDA[2]	$ 1,172	$ 1,070	$ 628	$ 479	$ 510
Depreciation and amortization	491	513	474	358	332
Net cash provided by (used in):					
Operating activities	868	764	438	353	343
Investing activities	(604)	(446)	(94)	(55)	(197)
Financing activities	(13)	(612)	(268)	(240)	(147)
Free cash flow[3]	242	335	367	322	144
Ratio of adjusted EBITDA to the sum of interest expense, net, and interest expense-subordinated convertible debentures, net	6.0x	5.8x	2.8x	3.2x	2.9x
Ratio of earnings to fixed charges[4]	3.3x	[5][6]	[5]	[5]	[5]

(Dollars in millions)	At December 31, 2007	2008	2009	At September 30, 2010
Balance sheet data:				
Cash	$ 381	$ 77	$ 169	$ 170
Rental equipment, net	2,826	2,746	2,414	2,335
Goodwill and other intangible assets, net	1,404	229	231	227
Total assets	5,842	4,191	3,859	3,744
Total debt	2,570	3,199	2,951	2,815
Subordinated convertible debentures	146	146	124	124
Stockholders' equity (deficit)	2,018	(29)	(19)	(15)

---

(1) During the fourth quarter of 2008 and in connection with the preparation of our year-end financial statements, we recognized an aggregate non-cash goodwill impairment charge of $1.1 billion related to certain reporting units within our general rentals segment. The charge reflected the challenges of the construction cycle, as well as the broader economic and credit environment. Substantially all of the impairment charge relates to goodwill arising out of acquisitions made by us between 1997 and 2000.

(2) EBITDA represents the sum of net income (loss), loss from discontinued operation, net of taxes, provision (benefit) for income taxes, interest expense, net, interest expense-subordinated convertible debentures, net, depreciation of rental equipment and non-rental depreciation and amortization. Adjusted EBITDA represents EBITDA plus (i) the sum of the restructuring charge, the charge related to the settlement of the SEC inquiry, the goodwill impairment charge and stock compensation expense, net less (ii) the sum of the merger termination benefit and the net foreign currency transaction gain. These items are excluded from adjusted EBITDA internally when evaluating our operating performance and allow investors to make a more meaningful comparison between our core business operating results over different periods of time, as well as with those of other similar companies. Management believes that EBITDA and adjusted EBITDA, when viewed with our GAAP results and the accompanying reconciliation, provide useful information about operating performance and period-over-period growth, and provide additional information that is useful for evaluating the operating performance of our core business without regard to potential distortions. Additionally, management believes that EBITDA and adjusted EBITDA permit investors to gain an understanding of the factors and trends affecting our ongoing cash earnings, from which capital investments are made and debt is serviced. However, EBITDA and adjusted EBITDA are not measures of financial performance or liquidity under GAAP and, accordingly, should not be considered as alternatives to net income (loss) or cash flow from operating activities as indicators of

Table of Contents

operating performance or liquidity. The table below provides a reconciliation between net income (loss) and EBITDA and adjusted EBITDA.

	Year Ended December 31,			Nine Months Ended September 30,	
(Dollars in millions)	**2007**	**2008**	**2009**	**2009**	**2010**
Net income (loss)	$ 362	$ (704)	$ (62)	$ (36)	$ (5)
Loss from discontinued operation, net of taxes	1	0	2	0	0
Provision (benefit) for income taxes	215	(109)	(47)	(22)	(18)
Interest expense, net	187	174	226	154	170
Interest expense-subordinated convertible debentures, net	9	9	(4)	(6)	6
Depreciation of rental equipment	437	455	417	316	289
Non-rental depreciation and amortization	54	58	57	42	43
EBITDA	$ 1,265	$ (117)	$ 589	$ 448	$ 485
Merger termination benefit[a]	(91)	0	0	0	0
Foreign currency transaction gain[b]	(17)	0	0	0	0
Restructuring charge[c]	0	20	31	25	19
Charge related to settlement of SEC inquiry[d]	0	14	0	0	0
Goodwill impairment charge[1]	0	1,147	0	0	0
Stock compensation expense, net[e]	15	6	8	6	6
Adjusted EBITDA	$ 1,172	$ 1,070	$ 628	$ 479	$ 510

(a) During 2007, we received $100 million following the termination of our merger agreement with certain affiliates of Cerberus Capital Management, L.P. This amount is included in other income, net of related transaction costs of $9 million.

(b) Other income for 2007 includes $17 million of net foreign currency transaction gains relating to intercompany transactions primarily between our Canadian subsidiary and our U.S. subsidiaries.

(c) Restructuring charges relate to the closure of branches and severance costs associated with reductions in headcount. The years ended December 31, 2008 and 2009 included closures of 75 and 64 branches, respectively, and reductions in headcount of approximately 1,000 and 1,900, respectively. The nine months ended September 30, 2009 and 2010 included closures of 51 and 27 branches, respectively, and reductions in headcount of approximately 1,500 and 600, respectively.

(d) In 2004, the SEC commenced a non-public, fact-finding inquiry concerning us. The inquiry related to a broad range of our accounting practices and was 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. In 2008, we reached a final settlement with the SEC of its inquiry. The settlement covered the issues identified in the Special Committee's findings and other accounting matters discussed in our Annual Report on Form 10-K for the year ended December 31, 2004. Under the terms of the settlement, we consented, without admitting or denying the allegations in the SEC's complaint, to the entry of a judgment requiring us to pay a civil penalty of $14 million and disgorgement of one dollar and enjoining us from violations of certain provisions of the federal securities laws in the future.

(e) Represents non-cash, share-based payments associated with the granting of equity instruments.

(3) Free cash flow is defined as (i) net cash provided by operating activities continuing operations less (ii) purchases of rental and non-rental equipment plus (iii) proceeds from sales of rental and non-rental equipment and excess tax benefits from share-based payment arrangements, net. 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 GAAP. Accordingly, free cash flow should not be considered an alternative to net income (loss) or cash flow from operating activities as an indicator of

Table of Contents

operating performance or liquidity. The table below provides a reconciliation between net cash provided by operating activities continuing operations and free cash flow.

(Dollars in millions)	Year Ended December 31, 2007	2008	2009	Nine Months Ended September 30, 2009	2010
Net cash provided by operating activities continuing operations	$ 859	$ 764	$ 438	$ 353	$ 343
Purchases of rental equipment	(870)	(624)	(260)	(198)	(287)
Purchases of non-rental equipment	(120)	(80)	(51)	(34)	(20)
Proceeds from sales of rental equipment	319	264	229	192	104
Proceeds from sales of non-rental equipment	23	11	13	11	6
Excess tax benefits from share-based payment arrangements, net	31	0	(2)	(2)	(2)
Free cash flow	$ 242	$ 335	$ 367	$ 322	$ 144

(4) For purposes of calculating this ratio, (i) earnings consist of income (loss) from continuing operations before provision (benefit) for income taxes and fixed charges, net of capitalized interest and (ii) fixed charges consist of interest expense, which includes amortization of deferred finance charges, capitalized interest and imputed interest on our lease obligations. The interest component of rent was determined based on an estimate of a reasonable interest factor at the inception of the leases. Currently, we have no shares of preferred stock outstanding, and we have not paid any dividends on preferred stock in the periods shown. Therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is not different from the ratio of earnings to fixed charges.

(5) Due to our losses for the years ended December 31, 2008 and 2009 and for the nine months ended September 30, 2009 and 2010, the ratio coverage was less than 1:1 for these periods. We would have had to have generated additional earnings of $814 million, $108 million, $59 million and $23 million for the years ended December 31, 2008 and 2009 and the nine months ended September 30, 2009 and 2010, respectively, to have achieved coverage ratios of 1:1.

(6) The loss for the year ended December 31, 2008 includes the effect of a $1,147 million pretax non-cash goodwill impairment charge. The effect of this charge was to reduce the ratio of earnings to fixed charges. Had this non-recurring charge been excluded from the calculation, the ratio of earnings to fixed charges would have been 2.2x for the year ended December 31, 2008.

(7) During 2008, 2009 and 2010, we repurchased or redeemed and subsequently retired certain of our outstanding debt securities. In connection with these repurchases/redemptions, we recognized gains (losses) based on the difference between the net carrying amounts of the repurchased or redeemed securities and the repurchase prices. Interest expense, net includes gains (losses) recognized in connection with these repurchases/redemptions of $41 million, $7 million, $16 million and $(3) million for the years ended December 31, 2008 and 2009 and the nine months ended September 30, 2009 and 2010, respectively.

(8) Interest expense-subordinated convertible debentures, net for the year ended December 31, 2009 and the nine months ended September 30, 2009 includes a $13 million gain we recognized in connection with the simultaneous purchase of $22 million of QUIPS and retirement of $22 million principal amount of our subordinated convertible debentures.

Table of Contents

RISK FACTORS

Investing in the notes involves risks. You should carefully consider the risks described below and the risk factors incorporated by reference herein, as well as the other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus, before you invest in the notes. Certain risks related to us and our business are contained in the section titled "*Item 1A Risk Factors*" and elsewhere in our most recent Annual Report on Form 10-K, which is incorporated by reference in this prospectus supplement and the accompanying prospectus (and in any of our Annual or Quarterly Reports for a subsequent year or quarter that we file with the SEC and that are so incorporated). See "*Where You Can Find More Information*" on page S-ii of this prospectus supplement and in the accompanying prospectus for information about how to obtain a copy of these documents. The risks and uncertainties described below and incorporated by reference into this prospectus supplement and the accompanying prospectus are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of these risks actually occurs, our business, financial condition and results of operations could be materially affected. In that case, the value of the notes could decline substantially.

Our substantial debt exposes us to various risks.

At September 30, 2010, our total indebtedness was $2.939 billion, including $124 million of Holdings' subordinated convertible debentures. Our substantial indebtedness has the potential to affect us adversely in a number of ways. For example, it will or could:

- increase our vulnerability to adverse economic, industry or competitive developments;
- require us to devote a substantial portion of our cash flow to debt service, reducing the funds available for other purposes, or otherwise constrain our financial flexibility;
- restrict our ability to move operating cash flows to Holdings (for example, the "restricted payment" basket capacity provided for in the indentures governing certain of URNA's outstanding debt securities was fully depleted by our 2008 activity, including our fourth quarter 2008 goodwill impairment charge. As of December 31, 2009, URNA had no available basket capacity under the most restrictive of the restricted payment covenants in these indentures);
- affect our ability to obtain additional financing, particularly since substantially all of our assets are subject to security interests relating to existing indebtedness; and
- decrease our profitability and/or cash flow.

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

- reducing or delaying capital expenditures;
- limiting our growth;
- seeking additional capital;

- selling assets; or
- restructuring or refinancing our indebtedness.

Even if we adopt an alternative strategy, the strategy may not be successful and we may continue to be unable to service our indebtedness and fund our operations.

A portion of our indebtedness bears interest at variable rates that are linked to changing market interest rates. As a result, an increase in market interest rates would increase our interest expense and our debt service obligations. At September 30, 2010, we had approximately $857 million of indebtedness that

bears interest at variable rates. This amount represented 29% of our total indebtedness, including Holdings' subordinated convertible debentures. See "*Item 7A Quantitative and Qualitative Disclosure About Market Risk*" in our most recent Annual Report on Form 10-K, incorporated by reference herein for additional information relating to interest rate risk.

Despite our current indebtedness levels, we and our subsidiaries may be able to incur substantially more debt and take other actions that could diminish our ability to make payments on the notes when due, which could further exacerbate the risks associated with our substantial indebtedness.

Despite our current indebtedness levels, we and our subsidiaries may be able to incur substantially more additional indebtedness in the future. We will not be fully restricted under the terms of the indenture governing the notes or the agreements governing our other indebtedness from incurring additional debt, securing existing or future debt, recapitalizing our debt or taking a number of other actions that are not prohibited by the terms of the indenture governing the notes or the agreements governing our other indebtedness, any of which actions could have the effect of diminishing our ability to make payments on the notes when due and further exacerbate the risks associated with our substantial indebtedness. Furthermore, the terms of the agreements governing our subsidiaries' indebtedness may not fully prohibit us or our subsidiaries from taking such actions.

If we are unable to satisfy the financial and other covenants in our debt agreements, our lenders could elect to terminate the agreements and require us to repay the outstanding borrowings, or we could face other substantial costs.

Under the agreement governing our ABL facility, we are required, among other things, to satisfy certain financial tests relating to: (1) the fixed charge coverage ratio and (2) the ratio of senior secured debt to EBITDA (as such ratios are defined in the agreement governing our ABL facility). Both of these covenants were suspended on June 9, 2009 because our availability, as defined in the agreement governing our ABL facility, had exceeded 20% of the maximum revolver amount under our ABL facility. Since the June 9, 2009 suspension date and through September 30, 2010, availability under our ABL facility has exceeded 10% of the maximum revolver amount under our ABL facility and, as a result, these maintenance covenants remained inapplicable. Subject to certain limited exceptions specified in our ABL facility, these covenants will only apply in the future if availability under our ABL facility falls below 10% of the maximum revolver amount under our ABL facility. Under the accounts receivable securitization facility, we are required, among other things, to maintain certain financial tests relating to: (1) the default ratio, (2) the delinquency ratio, (3) the dilution ratio and (4) days sales outstanding. If we are unable to satisfy any of the relevant covenants, the lenders could elect to terminate our ABL facility, the accounts receivable securitization facility and/or other agreements governing our debt and require us to repay outstanding borrowings. In such event, unless we are able to refinance the indebtedness coming due and replace our ABL facility, the accounts receivable securitization facility and/or the other agreements governing our debt, we would likely not have sufficient liquidity for our business needs and would be forced to adopt an alternative strategy as described above. Even if we adopt an alternative strategy, the strategy may not be successful and we may not have sufficient liquidity to service our debt and fund our operations.

In addition to financial covenants, we are subject to various other covenants in our ABL facility, the accounts receivable securitization facility, and in the other agreements governing our debt. In addition to the risks with respect to covenant non-compliance, compliance with covenants may restrict our ability to conduct our operations. For instance, these covenants limit or prohibit, among other things, our ability to incur additional indebtedness, make prepayments of certain indebtedness, pay dividends, repurchase common stock, make investments, create liens, make acquisitions, sell assets and engage in mergers and acquisitions. These covenants could adversely affect our operating results by significantly limiting our operating and financial flexibility.

Table of Contents

The notes and the guarantees are subordinated to URNA's and the guarantors' senior indebtedness. Furthermore, because URNA's foreign subsidiaries are not guarantors, the notes are effectively subordinated to all indebtedness and other obligations, including trade payables, of such foreign subsidiaries.

The notes are general unsecured obligations of URNA and are subordinated in right of payment to the prior payment of all current and future senior indebtedness of URNA, including borrowings under our ABL facility. Likewise, the guarantees of the notes are the general unsecured obligations of the guarantors and are subordinated in right of payment to the prior payment of all current and future senior indebtedness of the guarantors. Finally, our foreign subsidiaries are not guarantors of the notes. Subsidiaries that we may establish or acquire in the future that are foreign subsidiaries, or that we may designate as unrestricted subsidiaries in accordance with the applicable indenture, will not guarantee the notes. As a result, the notes are effectively subordinated to all indebtedness and other obligations, including trade payables, of our subsidiaries that are not guarantors.

The effect of this subordination is that:

- if URNA were to undergo a bankruptcy, liquidation, dissolution, reorganization or similar proceeding, URNA's assets would be available to pay its obligations on the notes only after all of its senior indebtedness is paid;

- if a guarantor were to undergo one of those types of proceedings, its assets would be available to pay its obligations on the guarantee of the notes only after all of its senior indebtedness is paid;

- if any of our non-guarantor subsidiaries were to undergo one of those types of proceedings, its assets would be available to pay the notes only after all its obligations are paid; and

- no cash payments with respect to the notes may be made if a payment default exists with respect to any of URNA's senior indebtedness and, under certain circumstances, no cash payments with respect to the notes may be made for a period of up to 179 days (during each period of 360 days) if a non-payment default exists with respect to any of URNA's designated senior indebtedness.

As of September 30, 2010, on a pro forma basis reflecting the redemption of $93 million principal amount of our 1$^{7}/_{8}$% Convertible Senior Subordinated Notes due 2023 on October 20, 2010 and as adjusted for this offering and the assumed application of the estimated net proceeds therefrom, as described under "*Use of Proceeds*":

- URNA had outstanding an aggregate of approximately $1.7 billion of senior indebtedness that would rank senior in right of payment to the notes, consisting of approximately $1.0 billion principal amount of URNA's unsecured senior obligations, comprised of $500 million principal amount of 9.25% Senior Notes due 2019 and $500 million principal amount of 10.875% Senior Notes due 2016 and approximately $712 million of URNA's secured obligations, comprised of $578 million of outstanding borrowings of URNA under our ABL facility and URNA's guarantee obligations in respect of $134 million of the outstanding borrowings of one of our guarantor subsidiaries under our ABL facility;

- The guarantors had guaranteed on a senior basis all of URNA's outstanding senior indebtedness;

- URI had outstanding an aggregate of approximately $173 million principal amount of 4% Convertible Senior Notes due 2015 that would rank senior in right of payment to the guarantees of URI;

- the non-guarantor subsidiaries had outstanding an aggregate of approximately $317 million of obligations that are effectively senior to the notes, which obligations comprise (1) $240 million of indebtedness of our special purpose vehicle in connection with the accounts receivable securitization facility and (2) $77 million in trade payables, deferred taxes and accrued

expenses;

Table of Contents

URNA and the guarantors had outstanding an aggregate of approximately $24 million in capital leases that are effectively senior to the notes;

URNA had outstanding an aggregate of approximately $22 million principal amount of 1$^{7}/_{8}$% Convertible Senior Subordinated Notes due 2023; and

The guarantors had guaranteed on a senior subordinated basis approximately $22 million principal amount of 1$^{7}/_{8}$% Convertible Senior Subordinated Notes due 2023.

The indenture governing the notes permits us and our subsidiaries to incur additional debt, subject to certain limitations. Any new indebtedness (including borrowings under our ABL facility) would be treated as senior indebtedness, except for indebtedness that specifically provides that it ranks equal with, or junior to, the notes and the guarantees, as applicable.

The notes and guarantees are unsecured. As a result, holders of our secured indebtedness will have a prior claim on our assets, in addition to the priority that they have by virtue of the subordination provisions described above.

The indenture governing the notes permits us and our subsidiaries to incur secured indebtedness subject to certain limitations. Our secured indebtedness includes all borrowings under our ABL facility and our capital leases. Our U.S. dollar borrowings under our ABL facility are secured by substantially all of our assets, including substantially all of the assets of our domestic subsidiaries (other than real property and certain accounts receivable). Most of our U.S. receivable assets have been sold to a bankruptcy remote special purpose entity in connection with the accounts receivable securitization facility (the accounts receivable in the collateral pool being the lender's only source of payment under that facility). If an event of default occurs under our secured indebtedness, the lenders thereunder will have the right to exercise the remedies (such as foreclosure) available to a secured lender under applicable law and the agreements governing such secured indebtedness. Since the notes and the guarantees are unsecured, the effect of such security interest is that the lenders under our ABL facility or the holders of other secured indebtedness will be entitled to exercise the remedies available to a secured lender under applicable law (in addition to any remedies that may be available under documents pertaining to our ABL facility or our other secured indebtedness). The exercise of such remedies may adversely affect our ability to meet our financial obligations under the notes.

Our business operations may not generate the cash needed to service and repay the notes or our other indebtedness.

Our ability to make payments on the notes and service our other indebtedness will depend on our ability to generate cash in the future, which, in turn, is subject to a variety of risks and uncertainties, many of which are beyond our control. At maturity, the entire outstanding principal amount of the notes will become due and payable by us. Our other indebtedness also will mature over the next five years and thereafter as set forth in "*Description of Our Other Indebtedness Maturities.*" We may not have sufficient funds to pay the principal of, or the premium (if any) or interest on, the notes or amounts due on our other indebtedness. If we do not have sufficient funds on hand or available through existing borrowing facilities or through the distribution of cash by our subsidiaries to us, we will need to seek additional financing. Additional financing may not be available to us in the amounts necessary, on terms that are satisfactory to us, or at all. If we default in the payment of amounts due on the notes (or our other outstanding indebtedness), it would give rise to an event of default under the indenture governing the notes (or the agreements governing our other indebtedness) and possible acceleration of amounts due under the indenture (or those other agreements), and any such default under one indenture or agreement could trigger a cross-default under each other indenture or agreement. In the event of any acceleration, there can be no assurance that the Company will have enough cash to repay its outstanding indebtedness, including the notes.

Table of Contents

We have a holding company structure and URNA will depend in part on distributions from its subsidiaries in order to pay amounts due on the notes. Certain provisions of law or contractual restrictions could limit distributions from URNA's subsidiaries.

We derive substantially all of our operating income from, and hold substantially all of our assets through, our subsidiaries. The effect of this structure is that URNA will depend in part on the earnings of its subsidiaries, and the payment or other distribution to it of these earnings, in order to meet its obligations under the notes and other outstanding debt. Provisions of law, such as those requiring that dividends be paid only from surplus, could limit the ability of URNA's subsidiaries to make payments or other distributions to URNA. Furthermore, these subsidiaries could in certain circumstances agree to contractual restrictions on their ability to make distributions. These restrictions could also render the subsidiary guarantors financially or contractually unable to make payments under their guarantees of the notes.

The guarantee of the notes by Holdings does not give noteholders a claim to significant assets other than those to which they already have a claim as URNA's direct creditors. Furthermore, substantially all of Holdings' assets are subject to an existing security interest, which gives certain of our lenders a priority claim to such assets.

The notes are guaranteed by Holdings. However, substantially all of Holdings' net worth is attributable to the stock of URNA owned by Holdings. Consequently, Holdings' guarantee does not give noteholders a claim to significant assets other than those to which they already have a claim as URNA's direct creditors. Furthermore, substantially all of Holdings' assets are subject to a security interest in favor of the lenders that have provided our credit facilities, which gives these lenders a priority claim to such assets.

If we experience a change of control, we will be required to make an offer to repurchase the notes. However, we may be unable to do so due to lack of funds or covenant restrictions.

If we experience a change of control (as defined in the indenture governing the notes), we will be required to make an offer to repurchase all outstanding notes at 101% of their principal amount, plus accrued but unpaid interest, if any, to the date of repurchase. However, we may be unable to do so because:

- we might not have enough available funds, particularly since a change of control could cause part or all of our other indebtedness to become due; and

- the agreements governing our credit facilities and other secured indebtedness would prohibit us from repurchasing the notes, unless we were able to obtain a waiver or refinance such indebtedness.

As a result, you may have to continue to hold your notes even after a change of control.

A failure to make an offer to repurchase the notes upon a change of control would give rise to an event of default under the indenture governing the notes and could result in an acceleration of amounts due thereunder. In addition, if we experience a change of control (as defined in our existing indentures), we will be required to make an offer to purchase all outstanding notes under our existing indentures, and our failure to make such an offer would give rise to a default and possible acceleration of amounts due under those indentures. Any such default under one indenture could trigger a cross-default under each other indenture. In addition, any such default under one indenture would trigger a default under our ABL facility (which could result in the acceleration of all indebtedness thereunder) and a termination event under the accounts receivable securitization facility. A change of control (as defined in the agreement governing our ABL facility), in and of itself, is also an event of default under our ABL facility, which would entitle our lenders to accelerate all amounts owing thereunder.

Table of Contents

In the event of any such acceleration, there can be no assurance that the Company will have enough cash to repay its outstanding indebtedness, including the notes.

A guarantee could be voided if the guarantor fraudulently transferred the guarantee at the time it incurred the indebtedness, which could result in the noteholders being able to rely only on URNA to satisfy claims.

A guarantee that is found to be a fraudulent transfer may be voided under the fraudulent transfer laws described below. The application of these laws requires the making of complex factual determinations and estimates as to which there may be different opinions and views.

In general, federal and state fraudulent transfer laws provide that a guarantee can be voided, or claims under a guarantee may be subordinated to all other debts of that guarantor if, among other things, at the time it incurred the indebtedness evidenced by its guarantee:

- the guarantor intended to hinder, delay or defraud any present or future creditor; or
- the guarantor received less than reasonably equivalent value or fair consideration for the incurrence of the guarantee; and
  - was insolvent or rendered insolvent by reason of such incurrence;
  - was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or
  - intended to incur, or believed that it would incur, debts beyond its ability to pay those debts as they mature.

In addition, any payment by that guarantor under a guarantee could be voided and required to be returned to the guarantor or to a fund for the benefit of the creditors of the guarantor.

The measures of insolvency for purposes of fraudulent transfer laws vary depending upon the governing law. Generally, a guarantor would be considered insolvent if:

- the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets;
- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or
- it could not pay its debts as they become due.

We cannot predict:

- what standard a court would apply in order to determine whether a guarantor was insolvent as of the date it issued the guarantee or whether, regardless of the method of valuation, a court would determine that the guarantor was insolvent on that date; or
- whether a court would determine that the payments under the guarantee constituted fraudulent transfers or conveyances on other grounds.

In the event that the guarantee of the notes by a guarantor is voided as a fraudulent conveyance, holders of the notes would effectively be subordinated to all indebtedness and other liabilities of that guarantor.

Table of Contents

A downgrade, suspension or withdrawal of the rating assigned by a rating agency to our debt securities could cause the liquidity or market value of the notes to decline significantly.

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when due. In general, rating agencies base their ratings on many quantitative and qualitative factors, including, but not limited to, capital adequacy, liquidity, asset quality, business mix and quality of earnings, and, as a result, we may not be able to maintain our current credit ratings. Credit rating agencies continually review their ratings for the companies that they follow, including us. In addition, this notes offering may cause the rating agencies to reassess the ratings assigned to our debt securities. Any such action may lead to a downgrade of any rating assigned to the notes or in the assignment of a rating for the notes that is lower than might otherwise be the case. Real or anticipated changes in our credit ratings could cause the liquidity or market value of the notes to decline significantly.

We expect the notes will be rated by Standard & Poor's Ratings Services ("S&P") and Moody's Investors Service, Inc. ("Moody's"). There can be no assurance that these ratings will remain for any given period of time or that these ratings will not be lowered or withdrawn entirely by a rating agency if, in that rating agency's judgment, future circumstances relating to the basis of the rating, such as adverse changes in our company, so warrant. In this respect, each of S&P and Moody's currently maintains a stable outlook on our company.

Credit ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization in its sole discretion. Neither we nor any underwriter undertakes any obligation to maintain the ratings or to advise holders of notes of any changes in ratings. Each agency's rating should be evaluated independently of any other agency's rating.

Our indentures and the agreement governing our ABL facility impose significant operating and financial restrictions on us. If we default, we may not be able to make payments on the notes.

Our indentures, including the indenture governing the notes, impose significant operating and financial restrictions on us and our restricted subsidiaries. The indentures contain certain restrictive covenants, including, among others, limitations on: (1) additional indebtedness; (2) restricted payments; (3) liens; (4) asset sales; (5) issuance of preferred stock of restricted subsidiaries; (6) transactions with affiliates; (7) dividend and other payment restrictions affecting restricted subsidiaries; (8) designations of unrestricted subsidiaries; (9) additional subsidiary guarantees; (10) mergers, consolidations or sales of substantially all our assets and (11) in some cases, sale-leaseback transactions. Each of these covenants is subject to important exceptions and qualifications. See "*Description of the Notes Certain Covenants*" and " *Consolidation, Merger, Sale of Assets, etc.*"

These restrictions may also make more difficult or discourage a takeover of us, whether favored or opposed by our management. Consummation of any such transaction in certain circumstances may require the redemption or repurchase of the applicable notes, and we cannot assure you that we or the acquiror will have sufficient financial resources to affect such a redemption or repurchase.

Our ability to comply with these covenants may be affected by events beyond our control, and any material deviations from our forecasts could require us to seek waivers or amendments of covenants or alternative sources of financing, or to reduce expenditures. We cannot assure you that such waivers, amendments or alternative financing could be obtained or, if obtained, would be on terms acceptable to us.

A breach of any of the covenants or restrictions contained in the indentures could result in an event of default. Such a default could allow our debt holders to accelerate the related debt, as well as any other debt to which a cross-acceleration or cross-default provision applies, and/or to declare all borrowings outstanding thereunder to be due and payable. If our debt is accelerated, our assets may not be sufficient to repay such debt, including the notes, in full.

Table of Contents

You may find it difficult to sell your notes.

You may find it difficult to sell your notes because an active trading market for the notes may not develop. The notes are a new issue of securities for which there currently is no established trading market. We do not intend to apply for listing or quotation of the notes on any securities exchange. Therefore, we do not know the extent to which investor interest will lead to the development of a trading market or how liquid that market might be. Although the underwriters have advised us that they currently intend to make a market in the notes, they are not obligated to do so. Accordingly, any market-making activities with respect to the notes may be discontinued at any time without notice.

If a market for the notes does develop, it is possible that you will not be able to sell your notes at a particular time or that the prices that you receive when you sell will be unfavorable. It is also possible that any trading market that does develop for the notes will not be liquid. Future trading prices of the notes will depend on many factors, including:

- our operating performance, financial condition and prospects, or the operating performance, financial condition and prospects of companies in the equipment rental industry generally;
- the interest of securities dealers in making a market for the notes;
- prevailing interest rates; and
- the market for similar securities.

Historically, the market for non-investment grade debt has been subject to disruptions that have caused volatility in prices. If a market for the notes develops, it is possible that the market for the notes will be subject to disruptions and price volatility. Any disruptions may have a negative effect on holders of the notes, regardless of our operating performance, financial condition and prospects.

Table of Contents

USE OF PROCEEDS

We anticipate that we will receive approximately $732 million in net proceeds from the sale of the notes, after underwriting discounts and commissions and payment of estimated fees and expenses. We expect to use the net proceeds from this offering to redeem $468 million principal amount of our 7$^{3}/_{4}$% Senior Subordinated Notes due 2013 and $253 million principal amount of our 7% Senior Subordinated Notes due 2014 and to pay for call premiums and accrued but unpaid interest to the date of redemption of such notes and to pay related expenses. We expect to temporarily apply the net proceeds of this offering to reduce outstanding borrowings under our ABL facility and the accounts receivable securitization facility during the redemption notice periods for our 7$^{3}/_{4}$% Senior Subordinated Notes due 2013 and our 7% Senior Subordinated Notes due 2014. On October 21, 2010, $561 million was outstanding under our ABL facility. At October 21, 2010, $245 million was outstanding under the accounts receivable securitization facility. For information regarding our outstanding senior indebtedness, including maturities and applicable interest rates, see "*Capitalization*" and "*Description of Our Other Indebtedness*".

Because affiliates of Banc of America Securities LLC, Wells Fargo Securities, LLC, Credit Agricole Securities (USA) Inc. and Scotia Capital (USA) Inc. will each receive more than 5% of the net proceeds from this offering, this offering is being made in compliance with NASD Rule 2720 of the FINRA rules. Accordingly, Morgan Stanley & Co. Incorporated is assuming the responsibilities of acting as the qualified independent underwriter in pricing the offering and conducting due diligence. No underwriter having a conflict of interest under NASD Rule 2720 will confirm sales to any account over which the underwriter exercises discretionary authority without the specific written approval of the accountholder.

Table of Contents

CAPITALIZATION

The following table presents our consolidated cash position and consolidated capitalization as of September 30, 2010: (1) on an actual basis, (2) on a pro forma basis reflecting the redemption on October 20, 2010 of $93 million principal amount of our 1 7/8% Convertible Senior Subordinated Notes due 2023 and related borrowings under our ABL facility to pay for such redemption and (3) on the same pro forma basis, and as adjusted for this offering and the assumed application of the estimated net proceeds therefrom. See "*Use of Proceeds*". For information regarding our outstanding senior indebtedness, including maturity and applicable interest rates, see "*Description of Our Other Indebtedness*." This table is derived from and should be read in conjunction with our unaudited consolidated financial statements incorporated in this prospectus supplement by reference to our most recent Quarterly Report on Form 10-Q. See "*Incorporation of Certain Information by Reference*" on page S-iii of this prospectus supplement.

	September 30, 2010		
(Dollars in millions)	**Actual**	**Pro Forma[1]**	**Pro Forma as adjusted for this offering[2]**
Cash and cash equivalents	$ 170	$ 170	$ 170
Debt:			
URNA and subsidiaries debt:			
$1.360 billion ABL facility[3]	$ 617	$ 710	$ 712
Accounts receivable securitization facility[4]	240	240	240
9.25% Senior Notes due 2019[5]	492	492	492
10.875% Senior Notes due 2016[6]	487	487	487
Notes offered hereby			750
7 3/4% Senior Subordinated Notes due 2013	468	468	
7% Senior Subordinated Notes due 2014	253	253	
1 7/8% Convertible Senior Subordinated Notes due 2023[7]	115	22	22
Other debt, including capital leases[8]	21	21	21
Total URNA and subsidiaries debt	$ 2,693	$ 2,693	$ 2,724
Holdings:			
4% Convertible Senior Notes due 2015[9][10]	122	122	122
Total debt	2,815	2,815	2,846
Subordinated convertible debentures	124	124	124
Total stockholders' deficit[11]	(15)	(16)	(28)
Total capitalization	$ 2,924	$ 2,923	$ 2,942
Net debt[12]	$ 2,645	$ 2,645	$ 2,676

(1) The "pro forma" column reflects the redemption of $93 million principal amount of our 1 7/8% Convertible Senior Subordinated Notes due 2023 on October 20, 2010, the increase in amounts drawn under our ABL facility to fund this redemption and the after-tax impact of $2 million of debt issuance costs written off associated with the partial redemption of our 1 7/8% Convertible Senior Subordinated Notes due 2023.

(2) We expect to use the net proceeds from this offering to redeem our 7 3/4% Senior Subordinated Notes due 2013 and our 7% Senior Subordinated Notes due 2014 and to pay for call premiums and accrued but unpaid interest to the date of redemption of such notes and to pay related expenses. We expect to temporarily apply the net proceeds of this offering to reduce outstanding borrowings under our ABL facility and the accounts receivable securitization facility during the redemption notice periods for our 7 3/4% Senior Subordinated

Notes due 2013 and our 7% Senior Subordinated Notes due 2014.

Table of Contents

(3)
$561 million was outstanding under our ABL facility at October 21, 2010. The weighted average interest rate for the quarter ended September 30, 2010 was 3.41%. $739 million, or 54%, was available under our ABL facility at October 21, 2010.

(4)
$245 million was outstanding under the accounts receivable securitization facility at October 21, 2010. The weighted average interest rate for the quarter ended September 30, 2010 was 1.73%. $13 million, or 5%, was available under the accounts receivable securitization facility at October 21, 2010. Most of URNA's U.S. receivable assets have been sold to a bankruptcy remote special purpose entity in connection with the accounts receivable securitization facility (the accounts receivable in the collateral pool being the lender's only source of payment under that facility).

(5)
The difference between the September 30, 2010 carrying value of the 9.25% Senior Notes due 2019 and the $500 million principal amount of those notes relates to an $8 million original issue discount recognized in conjunction with the issuance of those notes.

(6)
The difference between the September 30, 2010 carrying value of the 10.875% Senior Notes due 2016 and the $500 million principal amount of those notes relates to a $13 million original issue discount recognized in conjunction with the issuance of those notes.

(7)
On October 20, 2010, we redeemed $93 million principal amount of our 1 7/8% Convertible Senior Subordinated Notes due 2023 following the exercise of the mandatory repurchase option by holders of these notes. The redemption was funded using amounts drawn under our ABL facility.

(8)
In addition to capital leases, this amount includes deferred gains on a terminated derivative transaction.

(9)
These notes are obligations of Holdings and are not guaranteed by us or our subsidiaries.

(10)
The 4% Convertible Senior Notes due 2015 are valued at $122 million in our consolidated balance sheet in accordance with GAAP. However, upon maturity, the aggregate principal amount due will be $173 million.

(11)
The $13 million change in equity reflects the after-tax impact of (a) a $7 million call premium on the 7 3/4% Senior Subordinated Notes due 2013, (b) a $6 million call premium on the 7% Senior Subordinated Notes due 2014 and (c) $8 million of debt issuance costs written off associated with the redemptions of the 7 3/4% Senior Subordinated Notes due 2013, the 7% Senior Subordinated Notes due 2014 and the 1 7/8% Convertible Senior Subordinated Notes due 2023.

(12)
Net debt represents total debt less cash and cash equivalents. Management believes that net debt is helpful in analyzing leverage as well as liquidity and is useful as a measure of financial position. However, net debt is not a GAAP financial measure, and, accordingly, should not be considered as an alternative to total debt or cash and cash equivalents. Net debt excludes $124 million of the subordinated convertible debentures included in our consolidated balance sheets, which reflects the obligation of Holdings to a subsidiary trust of Holdings that has issued 6 1/2% Convertible Quarterly Income Preferred Securities. Set forth below is a reconciliation of total debt, the most directly comparable financial measure calculated and reported in accordance with GAAP, to net debt:

	September 30, 2010		
	Actual	**Pro Forma**	**Pro Forma as adjusted for this offering**
Total debt	$ 2,815	$ 2,815	$ 2,846
Cash and cash equivalents	(170)	(170)	(170)
Net debt	$ 2,645	$ 2,645	$ 2,676

Table of Contents

DESCRIPTION OF OUR OTHER INDEBTEDNESS
(Dollars in millions)

Set forth below is certain information concerning our existing ABL facility and the accounts receivable securitization facility of a subsidiary of URNA, as well as URNA's and Holdings' outstanding debt securities and subordinated convertible debentures. URNA's outstanding debt securities are governed by indentures that are similar in certain respects to the indenture that will govern the notes. However, these existing indentures also contain provisions that are different from those that will be contained in the indenture that will govern the notes including, but not limited to, those in respect of maturity, interest rates, redemption prices and periods during which URNA may exercise its options to redeem the notes issued thereunder, as well as in respect of the scope and content of many of the restrictive covenants contained therein. URNA's existing notes are guaranteed on a senior or senior subordinated basis by Holdings and, subject to limited exceptions, its current and future domestic subsidiaries. Copies of the applicable credit agreements and indentures may be obtained from our filings with the SEC that are available to the public on the SEC's website at *http://www.sec.gov* and from us. See "*Incorporation of Certain Information by Reference*" and "*Where You Can Find More Information*" beginning on page S-ii of this prospectus supplement and in the accompanying prospectus.

Certain Information Concerning the Credit Facilities

ABL Facility. In June 2008, Holdings, URNA and certain of their subsidiaries entered into a credit agreement providing for a five-year $1,250 ABL facility, a portion of which is available for borrowing in Canadian dollars. In October 2008 and November 2009, the availability under our ABL facility was increased to $1,285 and $1,360, respectively, and subject to certain conditions, the commitments under our ABL facility can be increased by up to an additional $75. Our ABL facility is subject to, among other things, the terms of a borrowing base derived from the value of eligible rental equipment and eligible inventory. The borrowing base is subject to certain reserves and caps customary for financings of this type. All amounts borrowed under the credit agreement must be repaid on or before June 2013. Loans under the credit agreement bear interest, at URNA's option: (1) in the case of loans in U.S. dollars, at a rate equal to the London interbank offered rate or an alternate base rate, in each case plus a spread, or (2) in the case of loans in Canadian dollars, at a rate equal to the Canadian prime rate or an alternate rate (Bankers Acceptance Rate), in each case plus a spread. The interest rates under the credit agreement are subject to change based on a total consolidated leverage ratio (a measurement of URNA's total debt to EBITDA, as defined in the credit agreement). A commitment fee accrues on any unused portion of the commitments under the credit agreement at a rate per annum based on usage. Ongoing extensions of credit under the credit agreement are subject to customary conditions, including sufficient availability under the borrowing base. The credit agreement also contains financial covenants that, unless certain financial and other conditions are satisfied, require URNA to satisfy various financial tests and to maintain certain financial ratios. In addition, the credit agreement contains customary negative covenants applicable to Holdings, URNA and their subsidiaries, including negative covenants that restrict the ability of such entities to, among other things: (1) incur additional indebtedness or engage in certain other types of financing transactions; (2) allow certain liens to attach to assets; (3) repurchase, or pay dividends or make certain other restricted payments on, capital stock and certain other securities; (4) prepay certain indebtedness; (5) make acquisitions and investments; and (6) consolidate, merge or consummate asset sales, in each case subject to certain exceptions and qualifications. URNA may voluntarily prepay the loans under the credit agreement in whole or in part at any time without penalty. However, URNA is required to prepay the loans to the extent of all net proceeds it receives from certain asset dispositions.

The U.S. dollar borrowings under the credit agreement are secured by substantially all of the assets of Holdings and URNA and substantially all of the assets of certain of their domestic subsidiaries (other than real property and certain accounts receivable). The U.S. dollar borrowings under the credit agreement are guaranteed by Holdings, URNA and, subject to certain exceptions, their domestic subsidiaries. Borrowings

Table of Contents

under the credit agreement by URNA's Canadian subsidiaries are also secured by substantially all of the assets of URNA's Canadian subsidiaries and supported by guarantees from the Canadian subsidiaries and from Holdings and URNA, and, subject to certain exceptions, their domestic subsidiaries. Under our ABL facility, a change of control (as defined in the credit agreement) constitutes an event of default, entitling the lenders under our ABL facility, among other things, to terminate our ABL facility and to require URNA to repay outstanding borrowings. Our ABL facility also contains customary default provisions, including a cross-default provision with respect to any of Holdings', URNA's or certain of their subsidiaries' debt with an outstanding principal amount of $75 or more.

Accounts Receivable Securitization Facility. On October 19, 2010, URNA and certain of its subsidiaries amended the existing accounts receivable securitization facility. The amended facility, which expires on October 19, 2011, provides for a facility size of $325 and includes a 364-day, two-year term-out provision. The amended facility also provides for adjustments to the receivables subject to purchase. The modified pricing structure is based on commercial paper rates plus a specified spread based on URNA's total leverage ratio, as defined in our ABL facility. There is also a commitment fee based on the utilization of the facility. Key provisions of the amended facility include the following:

- borrowings are permitted only to the extent that the face amount of the receivables in the collateral pool exceeds the outstanding loans by a specified amount;

- the receivables in the collateral pool are the lenders' only source of repayment;

- 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;

- standard termination events including, without limitation, a termination event if there is a change of control of Holdings or URNA, or if the long-term senior secured rating of URNA falls below either B+ from Standard & Poor's Ratings Services ("S&P") or B2 from Moody's Investors Service, Inc. ("Moody's"). As of October 18, 2010, URNA's long-term senior secured debt was rated BB- by S&P and Ba2 by Moody's; and

- standard default, delinquency and dilution ratio provisions, including a cross-default provision with respect to any of URNA's debt with an outstanding principal amount of $25 or more.

Certain Information Concerning URNA's Debt Securities

9.25% Senior Notes. In November 2009, URNA issued $500 aggregate principal amount of 9.25% Senior Notes (the "9.25% Notes"), which are due December 15, 2019. The net proceeds from the sale of the 9.25% notes were $480, after deducting the underwriters' discounts, commissions and offering expenses. The difference between the September 30, 2010 carrying value of the 9.25% Notes and the $500 principal amount of the notes relates to an $8 original issue discount recognized in conjunction with the issuance of these notes. The 9.25% Notes are guaranteed by Holdings and, subject to limited exceptions, URNA's domestic subsidiaries. The 9.25% Notes may be redeemed on or after December 15, 2014 at specific redemption prices that range from 104.625% in 2014 to 100.0% in 2017 and thereafter. The indenture governing the 9.25% Notes contains certain restrictive covenants, including, among others, limitations on (1) additional indebtedness; (2) restricted payments; (3) liens; (4) asset sales; (5) issuance of preferred stock of restricted subsidiaries; (6) transactions with affiliates; (7) dividend and other payment restrictions affecting restricted subsidiaries; (8) designations of unrestricted subsidiaries; (9) additional subsidiary guarantees and (10) mergers, consolidations or sales of substantially all of its assets. The indenture also requires that, in the event of a change of control (as defined in the indenture), URNA must make an offer to purchase all of the then outstanding 9.25% Notes tendered at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, thereon. The indenture also contains customary default provisions, including a cross-default provision with respect to

any outstanding debt of URNA or certain of its subsidiaries in excess of $25, if any of the indebtedness described below is outstanding, or $50, if no such indebtedness remains outstanding.

10.875% Senior Notes. In June 2009, URNA issued $500 aggregate principal amount of 10.875% Senior Notes (the "10.875% Notes"), which are due June 15, 2016. The net proceeds from the sale of the 10.875% Notes were approximately $471, after deducting the initial purchasers' discounts, commissions and offering expenses. The difference between the September 30, 2010 carrying value of the 10.875% Notes and the $500 principal amount of the notes relates to a $13 original issue discount recognized in conjunction with the issuance of these notes. The 10.875% Notes are unsecured and guaranteed by Holdings, and subject to limited exceptions, URNA's domestic subsidiaries. The 10.875% Notes may be redeemed on or after June 15, 2013, at specified redemption prices that range from 105.438% in 2013 to 100% in 2015 and thereafter. The indenture governing the 10.875% Notes contains certain restrictive covenants, including, among others, limitations on (1) additional indebtedness, (2) restricted payments, (3) liens, (4) dividends and other payments, (5) preferred stock of certain subsidiaries, (6) transactions with affiliates, (7) the disposition of proceeds of asset sales and (8) Holdings' or URNA's ability to consolidate, merge or sell all or substantially all of their assets, as well as a requirement to timely file periodic reports with the SEC. These covenants include exceptions that would allow us to engage in these activities under certain conditions. The indenture also requires that, in the event of a change of control (as defined in the indenture), URNA must make an offer to purchase all of the then outstanding 10.875% Notes tendered at a purchase price in cash equal to 101.00% of the principal amount thereof, plus accrued and unpaid interest, if any, thereon. The indenture also contains customary default provisions, including a cross-default provision with respect to any outstanding debt of URNA or certain of its subsidiaries in excess of $25, if any of the indebtedness described below is outstanding, or $50, if no such indebtedness remains outstanding.

7$\frac{3}{4}$% Senior Subordinated Notes. In November 2003, URNA issued $525 aggregate principal amount of 7$\frac{3}{4}$% Senior Subordinated Notes (the "7$\frac{3}{4}$% Notes"), which are due November 15, 2013. The net proceeds from the sale of the 7$\frac{3}{4}$% Notes were approximately $523, after deducting the initial purchasers' discounts, commissions and offering expenses. The 7$\frac{3}{4}$% Notes are unsecured and are guaranteed by Holdings and, subject to limited exceptions, URNA's domestic subsidiaries. The 7$\frac{3}{4}$% Notes may be redeemed on or after November 15, 2008, at specified redemption prices that range from 103.875% in 2008 to 100.00% in 2011 and thereafter. The indenture governing the 7$\frac{3}{4}$% Notes contains certain restrictive covenants, including, among others, limitations on (1) additional indebtedness (including subordinated indebtedness), (2) restricted payments, (3) liens, (4) dividends and other payments, (5) preferred stock of certain subsidiaries, (6) transactions with affiliates, (7) the disposition of proceeds of asset sales and (8) Holdings' or URNA's ability to consolidate, merge or sell all or substantially all of their assets, as well as a requirement to timely file periodic reports with the SEC. The indenture also requires that, in the event of a change of control (as defined in the indenture), URNA must make an offer to purchase all of the then outstanding 7$\frac{3}{4}$% Notes tendered at a purchase price in cash equal to 101.00% of the principal amount thereof, plus accrued and unpaid interest, if any, thereon. The indenture also contains customary default provisions, including a cross-default provision with respect to any outstanding debt of URNA or certain of its subsidiaries in excess of $15. During the first nine months of 2010, URNA repurchased and retired an aggregate of $16 principal amount of its outstanding 7$\frac{3}{4}$% Notes.

7% Senior Subordinated Notes. In January 2004, URNA issued $375 aggregate principal amount of 7% Senior Subordinated Notes (the "7% Notes"), which are due February 15, 2014. The net proceeds from the sale of the 7% Notes were approximately $369, after deducting the initial purchasers' discounts, commissions and offering expenses. The 7% Notes are unsecured and are guaranteed by Holdings and, subject to limited exceptions, URNA's domestic subsidiaries. The 7% Notes mature on February 15, 2014 and may be redeemed by URNA on or after February 15, 2009, at specified redemption prices that range from 103.5% in 2009 to 100.0% in 2012 and thereafter. The indenture governing the 7% Notes contains certain restrictive covenants, including, among others, limitations on (1) additional indebtedness (including

subordinated indebtedness), (2) restricted payments, (3) liens, (4) dividends and other payments, (5) preferred stock of certain subsidiaries, (6) transactions with affiliates, (7) the disposition of proceeds of asset sales and (8) Holdings' or URNA's ability to consolidate, merge or sell all or substantially all of their assets, as well as a requirement to timely file periodic reports with the SEC. The indenture also requires that, in the event of a change of control (as defined in the indenture), URNA must make an offer to purchase all of the then outstanding 7% Notes tendered at a purchase price in cash equal to 101.00% of the principal amount thereof, plus accrued and unpaid interest, if any, thereon. The indenture also contains customary default provisions, including a cross-default provision with respect to any outstanding debt of URNA or certain of its subsidiaries in excess of $25. During the first nine months of 2010, URNA repurchased and retired an aggregate of $8 principal amount of its outstanding 7% Notes.

1⁷/₈% Convertible Senior Subordinated Notes. In October and December 2003, URNA issued $144 aggregate principal amount of 1⁷/₈% Convertible Senior Subordinated Notes (the "1⁷/₈% Convertible Notes"), which are due October 15, 2023. The net proceeds from the sale of the 1⁷/₈% Convertible Notes were approximately $140, after deducting the initial purchasers' discounts, commissions and offering expenses. The 1⁷/₈% Convertible Notes are unsecured and are guaranteed by Holdings. Holders of the 1⁷/₈% Convertible Notes may convert them into shares of common stock of Holdings prior to their maturity, at a current conversion price of approximately $22.25 per share (subject to further adjustment in certain circumstances), if (1) the price of Holdings' common stock reaches a specific threshold, (2) the 1⁷/₈% Convertible Notes are called for redemption, (3) specified corporate transactions occur or (4) the average trading price of the 1⁷/₈% Convertible Notes falls below certain thresholds. The 1⁷/₈% Convertible Notes mature on October 15, 2023 and may be redeemed on or after October 20, 2010, at 100.00% of the principal amount. Holders of the 1⁷/₈% Convertible Notes may require URNA to repurchase all or a portion of the 1⁷/₈% Convertible Notes in cash on each of October 15, 2010, October 15, 2013 and October 15, 2018 at 100% of the principal amount of the 1⁷/₈% Convertible Notes to be repurchased, plus accrued and unpaid interest, if any, thereon. The indenture also requires that, in the event of a fundamental change (as defined in the indenture), URNA must make an offer to purchase all of the then outstanding 1⁷/₈% Convertible Notes tendered at a purchase price in cash equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, thereon. The indenture also contains customary default provisions, including a cross-default provision with respect to any outstanding debt of Holdings, URNA or certain of its subsidiaries in excess of $15. On October 20, 2010, we redeemed $93 principal amount of our 1⁷/₈% Convertible Notes following the exercise of the mandatory repurchase option by holders of these notes. The redemption was funded using amounts drawn under our ABL facility.

Loan Covenants and Compliance

As of December 31, 2009 and September 30, 2010, URNA and its subsidiaries were in compliance with the covenants and other provisions of our ABL facility, the accounts receivable securitization facility and the outstanding senior and senior subordinated notes. Any failure to be in compliance with any material provision or covenant of these agreements could have a material adverse effect on our liquidity and operations.

The only financial covenants which currently exist relate to the fixed charge coverage ratio and the senior secured leverage ratio under our ABL facility. Both of these covenants were suspended on June 9, 2009 because our availability, as defined in the agreement governing our ABL facility, had exceeded 20% of the maximum revolver amount under our ABL facility. Since the June 9, 2009 suspension date and through September 30, 2010, availability under our ABL facility has exceeded the 10% of the maximum revolver amount under our ABL facility and, as a result, these maintenance covenants remained inapplicable. Subject to certain limited exceptions specified in our ABL facility, these covenants will only apply in the future if availability under our ABL facility falls below 10% of the maximum revolver amount under our ABL facility.

Table of Contents

Maturities

Maturities of the indebtedness of Holdings, URNA and the guarantor and non-guarantor subsidiaries for each of the next five years and thereafter at September 30, 2010 (without giving effect to the offering of the notes) are as follows:

2010	$ 95
2011	246
2012	3
2013	1,086
2014	254
Thereafter	1,206
Total	$ 2,890

On October 20, 2010, we redeemed $93 principal amount of our 1 7/8% Convertible Notes following the exercise of the mandatory repurchase option by holders of these notes. The $93 principal amount of the redeemed 1 7/8% Convertible Notes is reflected as a 2010 maturity in the table above. The outstanding $22 principal amount of 1 7/8% Convertible Notes following the partial redemption matures in 2023. In addition to the debt maturities reflected in the table above, the subordinated convertible debentures included in our consolidated balance sheets, which reflect the obligation of Holdings to a subsidiary trust of Holdings (the "Trust") that has issued 6 1/2% Convertible Quarterly Income Preferred Securities ("QUIPS"), mature in 2028.

Certain Information Concerning Holdings' Debt Securities

Holdings 4% Convertible Senior Notes. In November 2009, Holdings issued $173 aggregate principal amount of 4.00% Convertible Senior Notes (the "4% Convertible Notes"), which are due November 15, 2015. The net proceeds from the sale of the 4% Convertible Notes were approximately $167, after deducting underwriters' discounts, commissions and offering expenses, but before the $26 cost of the convertible note hedge transactions described below. Holders of the 4% Convertible Notes may convert them into shares of Holdings' common stock prior to the close of business on the business day immediately preceding May 15, 2015 at an initial conversion price of approximately $11.11 per share of common stock (subject to further adjustment in certain circumstances), if (i) the price of Holdings' common stock reaches a specific threshold, (ii) the trading price of the 4% Convertible Notes falls below certain thresholds or (iii) specified corporate transactions occur. If Holdings undergoes a fundamental change (as defined in the indenture governing the 4% Convertible Notes), holders of the 4% Convertible Notes may require Holdings to repurchase all or any portion of their 4% Convertible Notes for cash at a price equal to 100% of the principal amount of the 4% Convertible Notes to be purchased plus any accrued and unpaid interest, including any additional interest, up to but excluding the fundamental change purchase date. The difference between the September 30, 2010 carrying value of the 4% Convertible Notes and the $173 principal amount relates to a $51 original issue discount recognized in conjunction with the issuance of these notes, which is being amortized through the above maturity date. The original issue discount represented the difference between the $173 of gross proceeds from the 4% Convertible Notes issuance and the fair value of the debt component of the 4% Convertible Notes at issuance. The 4% Convertible Notes provide Holdings with a choice of net cash settlement or settlement in shares.

In connection with the 4% Convertible Notes offering, Holdings entered into convertible note hedge transactions with option counterparties. The convertible note hedge transactions cover, subject to anti-dilution adjustments, 15.5 million shares of Holdings' common stock. The convertible note hedge transactions are intended to reduce, subject to a limit, the potential dilution with respect to Holdings' common stock upon conversion of the 4% Convertible Notes. The effect of the convertible note hedge transactions is to increase the effective conversion price to approximately $15.56 per share, equal to an

Table of Contents

approximately 75% premium over the $8.89 closing price of Holdings' common stock on November 10, 2009. However, in the event the market value of our common stock exceeds $15.56 per share, the settlement amount received from such transactions will only partially offset the potential dilution.

Certain Information Concerning Holdings' Subordinated Convertible Debentures

The subordinated convertible debentures included in our consolidated balance sheets reflect the obligation of Holdings to the Trust that has issued QUIPS. This subsidiary is not consolidated in our financial statements because we are not the primary beneficiary of the trust.

In August 1998, the Trust issued and sold $300 of QUIPS in a private offering. The Trust used the proceeds from the offering to purchase 6 1/2% subordinated convertible debentures due 2028 of Holdings (the "Debentures"), which resulted in Holdings receiving all of the net proceeds of the offering. The QUIPS are non-voting securities, carry a liquidation value of $50 (fifty dollars) per security and are convertible into Holdings' common stock. The initial convertible rate was 1.146 shares of common stock per preferred security (equivalent to an initial conversion price of $43.63 per share). In July 2008, following the completion of the modified "Dutch auction" tender offer, the conversion price of the QUIPS was adjusted to $41.02 and, accordingly, each $50 (fifty dollars) in liquidation preference is now convertible into 1.219 shares of common stock. As of September 30, 2010, the aggregate amount of Debentures outstanding was $124.

Holders of the QUIPS are entitled to preferential cumulative cash distributions from the Trust at an annual rate of 6 1/2% 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 quarterly interest payments on the Debentures for up to twenty consecutive quarters, but not beyond the maturity date of the Debentures. If Holdings' quarterly interest payments on the Debentures are deferred, so are the corresponding cash distribution payments on the QUIPS. During any period in which Holdings is deferring its quarterly interest payments, Holdings will be prohibited from paying dividends on any of its capital stock or making principal, interest or other payments on debt securities 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.

The Debentures mature on August 1, 2028 and may be redeemed by Holdings prior thereto at par. The indenture governing the Debentures contains standard default provisions and debtor covenants.

Table of Contents

DESCRIPTION OF THE NOTES

We will issue the notes under an indenture (the "Indenture") to be dated as of October 26, 2010, among us, each of the Guarantors and The Bank of New York Mellon, as trustee (the "Trustee"). The terms of the notes include those expressly set forth in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"). This description supplements, and should be read together with, the description of the general terms and provisions of the senior subordinated debt securities set forth in the accompanying prospectus under "*Description of Debt Securities*." This description of notes, however, supersedes information set forth in the accompanying prospectus under "*Description of Debt Securities*" to the extent inconsistent, and the notes will not be subject to certain provisions described in the accompanying prospectus, as specified below.

You may request a copy of the Indenture from us as described under "*Where You Can Find More Information*" on page S-ii of this prospectus supplement and in the accompanying prospectus.

The following description is a summary of the material provisions of the notes and the Indenture and does not purport to be complete. This summary is subject to and is qualified by reference to all of the provisions of the notes and the Indenture, including the definitions of certain terms used in the Indenture. We urge you to read these documents because they, and not this description, define your rights as a holder of the notes.

Certain terms used in this description are defined under the subheading " *Certain Definitions*." In this description, the words "Company," "we" and "our" refer only to United Rentals (North America), Inc. and not to any of its subsidiaries.

Brief Description of the Notes

The notes:

- will be unsecured senior subordinated obligations of the Company;
- will rank junior in right of payment to all our existing and future Senior Indebtedness;
- will rank senior to any existing and future indebtedness of the Company expressly subordinated to the notes;
- will rank equally with all existing and future Senior Subordinated Indebtedness; and
- are guaranteed on a senior subordinated basis by Holdings and each Subsidiary Guarantor.

Maturity, Interest and Principal

The Company will issue the notes initially in an aggregate principal amount of $750 million. The notes will mature on September 15, 2020. Subject to our compliance with the covenant described under the subheading " *Certain Covenants Limitation on Indebtedness*," we are permitted to issue more notes under the Indenture (the "Additional Notes"). The notes offered hereby and the Additional Notes, if any, will rank equally and be treated as a single class for all purposes of the Indenture, including waivers, amendments, redemptions and offers to purchase. Interest on the notes will accrue at the rate of 8.375% per annum and will be payable semiannually in arrears on each March 15 and September 15 to the holders of record of notes at the close of business on the March 1 and September 1, respectively, immediately preceding such interest payment date. The first interest payment with respect to the notes will be March 15, 2011. Interest on the notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from October 26, 2010. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

The notes will be issued only in registered form without coupons, in denominations of $1,000 and integral multiples thereof. Principal of, premium, if any, and interest on the notes will be payable, and the

notes will be transferable, at the principal corporate trust office or agency of the Trustee in The City of New York maintained for such purposes. In addition, interest may be paid at the option of the Company by check mailed to the person entitled thereto as shown on the security register. No service charge will be made for any transfer, exchange or redemption of notes, except in certain circumstances for any tax or other governmental charge that may be imposed in connection therewith.

Initial settlement for the notes will be made in same-day funds. The notes are expected to trade in the Same-Day Funds Settlement System of The Depository Trust Company ("DTC") until maturity, and secondary market trading activity for the notes will therefore settle in same-day funds.

Optional Redemption

Except as set forth below, we will not be entitled to redeem the notes at our option prior to September 15, 2015.

The notes will be redeemable at our option, in whole or in part, at any time on or after September 15, 2015 at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve-month period beginning September 15 of the years indicated below:

Year	Redemption Price
2015	104.188%
2016	102.792%
2017	101.396%
2018 and thereafter	100.000%

In addition, at any time, or from time to time, on or prior to September 15, 2013, we may, at our option, use the net cash proceeds of one or more Public Equity Offerings (as defined below) to redeem up to an aggregate of 35% of the principal amount of the notes (which includes Additional Notes, if any), at a redemption price equal to 108.375% of the principal amount of the notes, plus accrued and unpaid interest, if any, thereon to the redemption date; *provided*, *however*, that at least 65% of the aggregate principal amount of notes (which includes Additional Notes, if any) remains outstanding immediately after the occurrence of such redemption. In order to effect the foregoing redemption with the proceeds of any Public Equity Offering, we shall send a redemption notice to the Trustee not later than 90 days after the consummation of any such Public Equity Offering.

As used in the preceding paragraph, "Public Equity Offering" means an underwritten public offering of Common Stock, other than an offering to a Subsidiary of Holdings, pursuant to a registration statement filed with the SEC in accordance with the Securities Act, the net cash proceeds of which are contributed to the Company as common equity capital.

Prior to September 15, 2015, we will be entitled at our option to redeem the notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the notes plus the Applicable Premium as of, and accrued and unpaid interest to, the redemption date (subject to the right of holders on the relevant record date to receive interest due on the relevant interest payment date).

"Applicable Premium" means with respect to a note at any redemption date, the greater of (i) 1.00% of the principal amount of such note and (ii) the excess of (A) the present value at such redemption date of (1) the redemption price of such note on September 15, 2015 (such redemption price being described in the second paragraph in this " *Optional Redemption*" section exclusive of any accrued interest) plus (2) all required remaining scheduled interest payments due on such note through September 15, 2015 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate, over (B) the principal amount of such note on such redemption date.

Table of Contents

"Adjusted Treasury Rate" means, with respect to any redemption date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities," for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after September 15, 2015, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third business day immediately preceding the redemption date, plus 0.50%.

"Comparable Treasury Issue" means the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the notes from the redemption date to September 15, 2015, that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a maturity most nearly equal to September 15, 2015.

"Comparable Treasury Price" means, with respect to any redemption date, if clause (ii) of the Adjusted Treasury Rate is applicable, the average of three, or such lesser number as is given to the Trustee, Reference Treasury Dealer Quotations for such redemption date.

"Quotation Agent" means the Reference Treasury Dealer selected by the Company.

"Reference Treasury Dealer" means three nationally recognized investment banking firms selected by the Company that are primary U.S. Government securities dealers.

"Reference Treasury Dealer Quotations" means with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day immediately preceding such redemption date.

Selection and Notice of Redemption

In the event that less than all of the notes are to be redeemed at any time, selection of such notes for redemption will be made by the Trustee in compliance with the requirements of the principal national securities exchange, if any, on which the notes are listed or, if the notes are not then listed on a national securities exchange, on a pro rata basis, to the extent practicable (subject to the rules of DTC); *provided*, *however*, that notes shall only be redeemable in principal amounts of $1,000 or an integral multiple of $1,000. Notice of redemption shall be mailed by first-class mail to each holder of notes to be redeemed at its registered address, at least 30 but not more than 60 days before the redemption date, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance or a satisfaction and discharge of the notes. If any note is to be redeemed in part only, the notice of redemption that relates to such note shall state the portion of the principal amount thereof to be redeemed. A new note in a principal amount equal to the unredeemed portion thereof will be issued in the name of the holder thereof upon surrender for cancellation of the original note. On and after the redemption date, interest will cease to accrue on notes or portions thereof called for redemption, unless we default in the payment of the redemption price.

Table of Contents

Sinking Fund

The notes will not be entitled to the benefit of any mandatory sinking fund.

Ranking

Senior Indebtedness versus Notes

The payment of the principal of, premium, if any, and interest on the notes and the payment of any guarantee of the notes by a Guarantor will be subordinate in right of payment to the prior payment in full of all Senior Indebtedness of the Company or the relevant Guarantors, as the case may be, including the obligations of the Company and such Guarantor under the Credit Agreement, the 9.25% Notes Indenture and the 10.875% Notes Indenture and, in the case of Holdings, the 4% Notes Indenture.

As of September 30, 2010, on a pro forma basis reflecting the redemption of $93 million principal amount of the 1 7/8% Convertible Notes on October 20, 2010 and as adjusted for this offering and the assumed application of the estimated net proceeds therefrom, as described under "*Use of Proceeds*" and "*Capitalization*", the notes would have ranked (1) junior in right of payment to approximately $1.7 billion of senior indebtedness consisting of (a) approximately $1.0 billion principal amount of the Company's unsecured senior obligations, comprised of (i) $500 million principal amount of the 9.25% Notes and (ii) $500 million principal amount of the 10.875% Notes, and (b) approximately $712 million of the Company's secured obligations, comprised of (i) $578 million of outstanding borrowings of the Company under the ABL facility and (ii) the Company's guarantee obligations in respect of $134 million of the outstanding borrowings of one of its guarantor subsidiaries under the ABL facility; (2) effectively junior to (a) $16 million of the Company's capital lease obligations and (b) the Company's guarantee obligations in respect of $8 million of capital lease obligations of its guarantor subsidiaries; (3) effectively junior to approximately $240 million of indebtedness of the Company's special purpose vehicle in connection with the accounts receivable securitization facility; and (4) equally with approximately $22 million principal amount of the 1 7/8% Convertible Notes.

As of September 30, 2010, on a pro forma basis reflecting the redemption of $93 million principal amount of the 1 7/8% Convertible Notes on October 20, 2010 and as adjusted for this offering and the assumed application of the estimated net proceeds therefrom, as described under "*Use of Proceeds*" and "*Capitalization*", the guarantees would have ranked (1) junior in right of payment to approximately $1.9 billion of senior indebtedness consisting of (a) approximately $1.2 billion principal amount of the Guarantors' senior obligations, comprised of (i) in the case of Holdings, $173 million principal amount of the 4% Notes and (ii) the Guarantors' guarantee obligations in respect of $500 million principal amount of the 9.25% Notes and $500 million principal amount of the 10.875% Notes, and (b) approximately $712 million of the Guarantors' secured obligations, comprised of (i) $134 million of outstanding borrowings of one of the Subsidiary Guarantors under the ABL facility and (ii) the Guarantors' guarantee obligations in respect of $578 million of the Company's outstanding borrowings under the ABL facility; (2) effectively junior to $8 million of capital lease obligations of the Guarantors; (3) effectively junior to approximately $240 million of indebtedness of the Company's special purpose vehicle in connection with the accounts receivable securitization facility and (4) equally with the Guarantors' guarantee obligations in respect of approximately $22 million principal amount of the 1 7/8% Convertible Notes. With the exception of $173 million of senior indebtedness of Holdings, all of the senior obligations of the Guarantors would also be senior obligations of the Company;

Although the Indenture contains limitations on the amount of additional Indebtedness that the Company and the Subsidiary Guarantors may incur, under certain circumstances the amount of such Indebtedness could be substantial and, in any case, such Indebtedness may be Senior Indebtedness. See " *Certain Covenants Limitation on Indebtedness*."

Table of Contents

Senior Subordinated Indebtedness versus Notes

Only Indebtedness of the Company or a Guarantor that is Senior Indebtedness will rank senior in right of payment to the notes and the guarantee of the notes by the relevant Guarantor for purposes of the provisions of the Indenture. The notes and each guarantee of the notes by a Guarantor will in all respects rank *pari passu* with all other Senior Subordinated Indebtedness of the Company and the Guarantors, respectively.

We and the Subsidiary Guarantors have agreed in the Indenture that we and they will not Incur any Indebtedness that is subordinate or junior in right of payment to our Senior Indebtedness or the Senior Indebtedness of such Subsidiary Guarantors, unless such Indebtedness is Senior Subordinated Indebtedness of the applicable person or is expressly subordinated in right of payment to Senior Subordinated Indebtedness of such person. The Indenture does not treat (i) unsecured Indebtedness as subordinated or junior to secured Indebtedness merely because it is unsecured or (ii) Senior Indebtedness as subordinated or junior to any other Senior Indebtedness merely because it has a junior priority with respect to the same collateral.

As of September 30, 2010, on a pro forma basis reflecting the redemption of $93 million principal amount of our 1$^{7}/_{8}$% Convertible Notes on October 20, 2010 and after adjusting for this offering and the assumed application of the estimated net proceeds therefrom, as described under "*Use of Proceeds*" and "*Capitalization*", the Company and the Guarantors would have had approximately $22 million of Senior Subordinated Indebtedness other than the notes, consisting of the 1$^{7}/_{8}$% Convertible Notes.

Liabilities of Subsidiaries versus Notes

A substantial portion of our operations are conducted through our subsidiaries. Some of our subsidiaries are not guaranteeing the notes, and, as described under " *Guarantees*", the guarantee of the notes by a Subsidiary Guarantor may be released under certain circumstances. In addition, certain of our future Subsidiaries may not be required to guarantee the notes. Claims of creditors of such subsidiaries that are not Subsidiary Guarantors, including trade creditors and creditors holding indebtedness or guarantees issued by such subsidiaries, and claims of preferred stockholders of such subsidiaries generally will have priority with respect to the assets and earnings of such subsidiaries over the claims of our creditors, including holders of the notes, even if such claims do not constitute Senior Indebtedness. Accordingly, the notes will be effectively subordinated to creditors (including trade creditors) and preferred stockholders, if any, of our subsidiaries that are not Subsidiary Guarantors.

The non-Guarantor Subsidiaries accounted for approximately $77 million, or 15%, and $245 million, or 15%, of our adjusted EBITDA and total revenues, respectively, for the nine months ended September 30, 2010. The non-Guarantor Subsidiaries accounted for approximately $781 million, or 21%, and $317 million, or 8%, of our total assets and total liabilities, respectively, at September 30, 2010. Although the Indenture will limit the incurrence of Indebtedness and preferred stock of certain of our subsidiaries, such limitation is subject to a number of significant qualifications. Moreover, the Indenture will not impose any limitation on the incurrence by such subsidiaries of liabilities that are not considered Indebtedness under the Indenture. See " *Certain Covenants Limitation on Indebtedness*."

Subordination

The Indebtedness evidenced by the notes is subordinated in right of payment to the prior payment in full in cash of all Senior Indebtedness. The notes are Senior Subordinated Indebtedness of the Company ranking senior to all existing and future Subordinated Indebtedness of the Company.

The Indenture provides that in the event of any insolvency or bankruptcy case or proceeding, or any receivership, liquidation, reorganization or other similar case or proceeding in connection therewith, relating to the Company or its assets, or any liquidation, dissolution or other winding-up of the Company, whether voluntary or involuntary, or any assignment for the benefit of creditors or other marshalling of assets or liabilities of the Company, all Senior Indebtedness (including, in the case of Designated Senior

Table of Contents

Indebtedness, any interest accruing subsequent to the filing of a petition for bankruptcy, regardless of whether such interest is an allowed claim in the bankruptcy proceeding) must be paid in full in cash before any payment (other than payments of certain permitted equity or subordinated securities) is made on account of the principal of, premium, if any, or interest on the notes.

During the continuance of any default in the payment of principal, premium, if any, or interest on any Senior Indebtedness, when the same becomes due, and after receipt by the Trustee and the Company from representatives of holders of such Senior Indebtedness of written notice of such default, no direct or indirect payment (other than payments from trusts previously created pursuant to the provisions described under " *Defeasance or Covenant Defeasance of Indenture*") by or on behalf of the Company of any kind or character (excluding certain permitted equity or subordinated securities) may be made on account of the principal of, premium, if any, or interest on, or the purchase, redemption or other acquisition of, the notes unless and until such default has been cured or waived or has ceased to exist or such Senior Indebtedness shall have been discharged or paid in full in cash, after which the Company shall resume making any and all required payments in respect of the notes, including any missed payments.

In addition, during the continuance of any other default with respect to any Designated Senior Indebtedness that permits, or would permit with the passage of time or the giving of notice or both, the maturity thereof to be accelerated (a "Nonpayment Default") and upon the earlier to occur of (a) receipt by the Trustee and the Company from the representatives of holders of such Designated Senior Indebtedness of a written notice of such Nonpayment Default or (b) if such Nonpayment Default results from the acceleration of the maturity of the notes, the date of such acceleration, no payment (other than payments from trusts previously created pursuant to the provisions described under " *Defeasance or Covenant Defeasance of Indenture*") of any kind or character (excluding certain permitted equity or subordinated securities) may be made by the Company on account of the principal of, premium, if any, or interest on, or the purchase, redemption, or other acquisition of, the notes for the period specified below (the "Payment Blockage Period").

The Payment Blockage Period shall commence upon the receipt of notice of a Nonpayment Default by the Trustee and the Company from the representatives of holders of Designated Senior Indebtedness or the date of the acceleration referred to in clause (b) of the preceding paragraph, as the case may be, and shall end on the earliest to occur of the following events: (i) 179 days have elapsed since the receipt of such notice or the date of the acceleration referred to in clause (b) of the preceding paragraph (provided the maturity of such Designated Senior Indebtedness shall not theretofore have been accelerated), (ii) such default is cured or waived or ceases to exist or such Designated Senior Indebtedness is discharged or paid in full in cash, or (iii) such Payment Blockage Period shall have been terminated by written notice to the Company or the Trustee from the representatives of holders of Designated Senior Indebtedness initiating such Payment Blockage Period, after which the Company shall promptly resume making any and all required payments in respect of the notes, including any missed payments. Only one Payment Blockage Period with respect to the notes may be commenced within any 360 consecutive day period. No Nonpayment Default with respect to Designated Senior Indebtedness that existed or was continuing on the date of the commencement of any Payment Blockage Period will be, or can be, made the basis for the commencement of a second Payment Blockage Period, whether or not within a period of 360 consecutive days, unless such default has been cured or waived for a period of not less than 90 consecutive days. In no event will a Payment Blockage Period extend beyond 179 days from the date of the receipt by the Trustee of the notice or the date of the acceleration initiating such Payment Blockage Period and there must be a 180 consecutive day period in any 360-day period during which no Payment Blockage Period is in effect.

If the Company fails to make any payment on the notes when due on account of the payment blockage provisions referred to above, such failure would constitute an Event of Default under the Indenture and would enable the holders of the notes to accelerate the maturity thereof. See " *Events of Default*."

Table of Contents

By reason of such subordination, in the event of liquidation or insolvency, creditors of the Company who are holders of Senior Indebtedness may recover more, ratably, than the holders of the notes, and funds which would be otherwise payable to the holders of the notes will be paid to the holders of Senior Indebtedness to the extent necessary to pay the Senior Indebtedness in full, and the Company may be unable to meet its obligations fully with respect to the notes.

The Indenture limits, but does not prohibit, the incurrence by the Company of additional Indebtedness which is senior to the notes and prohibits the incurrence by the Company of Indebtedness which is subordinated in right of payment to any other Indebtedness of the Company and senior in right of payment to the notes.

Guarantees

Holdings and the Subsidiary Guarantors will fully and unconditionally guarantee, on a senior subordinated basis, jointly and severally, to each holder and the Trustee, the full and prompt performance of the Company's obligations under the Indenture and the notes, including the payment of principal of and interest on the notes. The guarantee of the notes by Holdings and each Subsidiary Guarantor is subordinated to Senior Indebtedness of Holdings or such Subsidiary Guarantor, as applicable, on the same basis as the notes are subordinated to Senior Indebtedness of the Company. Subject to limited exceptions, the Subsidiary Guarantors are the current and future United States subsidiaries of the Company.

The obligations of each Subsidiary Guarantor are limited to the maximum amount which, after giving effect to all other contingent and fixed liabilities of such Subsidiary Guarantor and after giving effect to any collections from or payments made by or on behalf of any other Subsidiary Guarantor in respect of the obligations of such other Subsidiary Guarantor under its guarantee or pursuant to its contribution obligations under the Indenture, will result in the obligations of such Subsidiary Guarantor under the guarantee not constituting a fraudulent conveyance or fraudulent transfer under federal or state law. See "*Risk Factors A guarantee could be voided if the guarantor fraudulently transferred the guarantee at the time it incurred the indebtedness, which could result in the noteholders being able to rely only on URNA to satisfy claims*."

Each Subsidiary Guarantor that makes a payment under its guarantee will be entitled to a contribution from each other Guarantor in an amount equal to such other Guarantor's pro rata portion of such payment based on the respective net assets of all the Guarantors at the time of such payment determined in accordance with GAAP (for purposes hereof, Holdings' net assets shall be those of all its consolidated Subsidiaries other than the Subsidiary Guarantors), *provided*, *however*, that during a Default, such right of contribution shall be suspended until the payment in full of all guaranteed obligations under the Indenture.

The guarantee of a Subsidiary Guarantor will be released:

(1) upon the sale or other disposition (including by way of consolidation or merger) of such Subsidiary Guarantor other than to the Company or a Restricted Subsidiary and as permitted by the Indenture;

(2) upon the sale or disposition of all or substantially all the assets of such Subsidiary Guarantor other than to the Company or a Restricted Subsidiary and as permitted by the Indenture;

(3) upon defeasance or covenant defeasance; or

(4) if the Company properly designates any Restricted Subsidiary that is a Subsidiary Guarantor as an Unrestricted Subsidiary.

Table of Contents

Change of Control

Upon the occurrence of a Change of Control, we shall be obligated to make an offer to purchase (a "Change of Control Offer"), on a business day (the "Change of Control Purchase Date") not more than 60 nor less than 30 days following the occurrence of the Change of Control, all of the then outstanding notes tendered at a purchase price in cash (the "Change of Control Purchase Price") equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, thereon to the Change of Control Purchase Date. We shall be required to purchase all notes tendered pursuant to the Change of Control Offer and not withdrawn. The Change of Control Offer is required to remain open for at least 20 business days.

In order to effect such Change of Control Offer, we shall, not later than the 30th day after the Change of Control, mail to each holder of notes notice of the Change of Control Offer, which notice shall govern the terms of the Change of Control Offer and shall state, among other things, the procedures that holders of notes must follow to accept the Change of Control Offer.

If a Change of Control Offer is made, there can be no assurance that we will have available funds sufficient to pay the Change of Control Purchase Price for all of the notes that might be delivered by holders of notes seeking to accept the Change of Control Offer. In addition, as at the date hereof certain of our debt instruments prohibit us from making such an offer in respect of our subordinated obligations and therefore there can be no assurance that our debt instruments will permit such offer to be made. The Credit Agreement prohibits us from purchasing, or imposes restrictions on our ability to purchase, notes pursuant to a Change of Control Offer and, in order to make such offer, at a time when we are prohibited from purchasing notes, we would be required to repay all principal (including letter of credit disbursements), interest and fees and provide for the expiration or termination of all letters of credit and commitments under, or refinance, the Credit Agreement or seek a waiver from the lenders thereunder to allow us to make the Change of Control Offer. The occurrence of a Change of Control is also an event of default under the Credit Agreement and would entitle the lenders to accelerate all amounts owing thereunder. Failure to make a Change of Control Offer, even if prohibited by our debt instruments, also would constitute a default under the Indenture. Pursuant to the indentures governing the $1^7/_8$% Convertible Notes, the 9.25% Notes and the 10.875% Notes, we are also required to make an offer to repurchase such notes upon a Change of Control, and our failure to make such an offer is an event of default under those indentures. See "*Risk Factors If we experience a change of control, we will be required to make an offer to repurchase the notes. However, we may be unable to do so due to lack of funds or covenant restrictions*." We shall not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements applicable to a Change of Control Offer made by the Company and purchases all notes validly tendered and not withdrawn under such Change of Control Offer.

The Change of Control purchase feature of the notes may in certain circumstances make more difficult or discourage a sale or takeover of our company and, thus, the removal of incumbent management. The Change of Control purchase feature is a result of negotiations between us and the underwriters. We have no present intention to engage in a transaction involving a Change of Control, although it is possible that we could decide to do so in the future. Subject to the limitations discussed below, we could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control under the Indenture, but that could increase the amount of indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings. The Indenture will contain restrictions on our ability to incur additional Indebtedness, as described under " *Certain Covenants Limitation on Indebtedness*" and " *Limitation on Liens*." Such restrictions can only be waived with the consent of the holders of a majority in principal amount of the notes then outstanding. Except for the limitations contained in such covenants, however, the Indenture will not contain any covenants or provisions that may afford holders of the notes protection in the event of a highly leveraged transaction.

Table of Contents

In addition, holders may not be entitled to require us to purchase their notes in certain circumstances involving a significant change in the composition of the Board of Directors of Holdings or the Company, including in connection with a proxy contest where such Board of Directors does not endorse a dissident slate of directors but approves them as directors.

The use of the term "all or substantially all" in provisions of the Indenture such as clause (b) of the definition of "Change of Control" and under " *Consolidation, Merger, Sale of Assets, etc.*" has no clearly established meaning under New York law (which governs the Indenture) and has been the subject of limited judicial interpretation in only a few jurisdictions. Accordingly, there may be a degree of uncertainty in ascertaining whether any particular transaction would involve a disposition of "all or substantially all" of the assets of a person, which uncertainty should be considered by prospective purchasers of notes.

The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder, to the extent such laws or regulations are applicable, in the event that a Change of Control occurs and the Company is required to purchase notes as described above.

Future indebtedness that we may incur may contain prohibitions on the occurrence of certain events that would constitute a Change of Control or require the repurchase of such indebtedness upon a Change of Control. Moreover, the exercise by the holders of their right to require us to repurchase the notes could cause a default under such indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchase on us.

The provisions under the Indenture relative to the Company's obligation to make a Change of Control Offer may, prior to the occurrence of a Change of Control, be waived or modified with the consent of the holders of at least a majority in principal amount of the then outstanding notes issued under the Indenture. Following the occurrence of a Change of Control, any change, amendment or modification in any material respect of the obligation of the Company to make and consummate a Change of Control Offer may only be effected with the consent of each holder affected thereby.

Certain Covenants

The Indenture will contain the following covenants, among others:

Limitation on Indebtedness. (1) The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create, incur, issue, assume, guarantee or in any manner become directly or indirectly liable, contingently or otherwise (in each case, to "incur"), for the payment of any Indebtedness (including any Acquired Indebtedness); *provided*, *however*, that (i) the Company and any Subsidiary Guarantor will be permitted to incur Indebtedness (including Acquired Indebtedness), and (ii) a Restricted Subsidiary will be permitted to incur Acquired Indebtedness, if in each case the Consolidated Fixed Charge Coverage Ratio of the Company and its Restricted Subsidiaries is at least 2:1.

(2) Notwithstanding the foregoing paragraph (1), the Company and the Restricted Subsidiaries will be entitled to incur any or all of the following Indebtedness:

(a) Indebtedness of the Company and the Guarantors related to the notes and the guarantees of those notes (other than any Additional Notes);

(b) Indebtedness incurred by the Company and Restricted Subsidiaries pursuant to a Credit Facility; *provided*, *however*, that, immediately after giving effect to any such incurrence, the aggregate principal amount of all Indebtedness incurred under this clause (b) and then outstanding does not exceed the greater of (A) $1.85 billion and (B) 85% of Consolidated Net Tangible Assets, less, in either case, any amounts permanently repaid or commitments permanently reduced in accordance with the covenant described under " *Disposition of Proceeds of Asset Sales*";

Table of Contents

(c) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Issue Date, including the $1^7/_8$% Convertible Notes, the 7% Notes, the $7^3/_4$% Notes, the 9.25% Notes and the 10.875% Notes;

(d) Indebtedness of the Company or any Restricted Subsidiary incurred in respect of (A) performance bonds, completion guarantees, surety bonds, bankers' acceptances, letters of credit or other similar bonds, instruments or obligations in the ordinary course of business, including Indebtedness evidenced by letters of credit issued in the ordinary course of business to support the insurance or self-insurance obligations of the Company or any of its Restricted Subsidiaries (including to secure workers' compensation and other similar insurance coverages), but excluding letters of credit issued in respect of or to secure money borrowed, (B) obligations under Currency Agreements and Fuel Hedging Agreements entered into for bona fide hedging purposes of the Company in the ordinary course of business, (C) financing of insurance premiums in the ordinary course of business or (D) netting, overdraft protection and other arrangements arising under standard business terms of any bank at which the Company or any Restricted Subsidiary maintains an overdraft, cash pooling or other similar facility or arrangement;

(e) Indebtedness consisting of accommodation guarantees for the benefit of trade creditors of the Company or any Restricted Subsidiary;

(f) (i) Interest Rate Protection Obligations of the Company covering Indebtedness of the Company; and (ii) Interest Rate Protection Obligations of any Restricted Subsidiary covering Permitted Indebtedness of such Restricted Subsidiary; *provided*, *however*, that, in the case of either clause (i) or (ii):

> (x) any Indebtedness to which any such Interest Rate Protection Obligations correspond is otherwise permitted to be incurred under this covenant; and
>
> (y) the notional principal amount of any such Interest Rate Protection Obligations shall not exceed the principal amount of the Indebtedness to which such Interest Rate Protection Obligations relate;

(g) Indebtedness of a Restricted Subsidiary owed to and held by the Company or another Restricted Subsidiary, except that:

> (i) any transfer of such Indebtedness by the Company or a Restricted Subsidiary (other than to the Company or another Restricted Subsidiary); and
>
> (ii) the sale, transfer or other disposition by the Company or any Restricted Subsidiary of the Company of Capital Stock of a Restricted Subsidiary (other than to the Company or a Restricted Subsidiary) which is owed Indebtedness of another Restricted Subsidiary

shall, in each case, be an incurrence of Indebtedness by such Restricted Subsidiary subject to the other provisions of the Indenture;

(h) Indebtedness of the Company owed to and held by a Restricted Subsidiary which is unsecured and subordinated in right of payment to the payment and performance of the obligations of the Company under the Indenture and the notes, except that:

> (i) any transfer of such Indebtedness by the Company or a Restricted Subsidiary (other than to another Restricted Subsidiary); and
>
> (ii) the sale, transfer or other disposition by the Company or any Restricted Subsidiary of the Company (other than to the Company or a Restricted Subsidiary) of Capital Stock of a Restricted Subsidiary which is owed Indebtedness of the Company

Table of Contents

shall, in each case, be an incurrence of Indebtedness by the Company, subject to the other provisions of the Indenture;

(i) (i) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; *provided*, *however*, that such Indebtedness is extinguished within five business days of incurrence; and

(ii) customer deposits and advance payments received in the ordinary course of business from customers for goods or services purchased or rented in the ordinary course of business;

(j) Indebtedness of the Company or any Restricted Subsidiary under equipment purchase or lines of credit or for Capitalized Lease Obligations or Purchase Money Obligations that, when added to all other Indebtedness incurred pursuant to this clause (j) and then outstanding, shall not exceed the greater of $200 million and 7.5% of Consolidated Net Tangible Assets in aggregate principal amount outstanding at any time;

(k) (i) Indebtedness of the Company the proceeds of which are used solely to refinance (whether by amendment, renewal, extension or refunding) Indebtedness of the Company or any of its Restricted Subsidiaries incurred pursuant to paragraph (1) of this covenant or pursuant to clause (a), (c) or (k) of this paragraph (2); and

(ii) Indebtedness of any Restricted Subsidiary the proceeds of which are used solely to refinance (whether by amendment, renewal, extension or refunding) Indebtedness of such Restricted Subsidiary incurred pursuant to paragraph (1) of this covenant or pursuant to clause (a), (c) or (k) of this paragraph (2); *provided*, *however*, that:

(x) the principal amount of Indebtedness incurred pursuant to this clause (k) (or, if such Indebtedness provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the maturity thereof, the original issue price of such Indebtedness) shall not exceed the sum of the principal amount of Indebtedness so refinanced, plus the amount of any accrued and unpaid interest and any premium required to be paid in connection with such refinancing pursuant to the terms of such Indebtedness or the amount of any premium reasonably determined by the Company as necessary to accomplish such refinancing by means of a tender offer or privately negotiated purchase, plus the amount of expenses in connection therewith; and

(y) in the case of Indebtedness incurred by the Company pursuant to this clause (k) to refinance Subordinated Indebtedness, such Indebtedness;

(A) has no scheduled principal payment prior to the 91st day after the Maturity Date;

(B) has an Average Life to Stated Maturity greater than the remaining Average Life to Stated Maturity of the notes; and

(C) is subordinated to the notes in the same manner and to the same extent that the Subordinated Indebtedness being refinanced is subordinated to the notes;

(l) Indebtedness of a Foreign Subsidiary incurred to finance the working capital of such Foreign Subsidiary;

(m) Indebtedness arising from agreements of the Company or any Restricted Subsidiary providing for guarantees, indemnification, obligations in respect of earnouts or other purchase price adjustments or holdback of purchase price or similar obligations, in each case, incurred or assumed in connection with the acquisition or disposition of any business, assets, person or a Subsidiary, other than guarantees of Indebtedness incurred by any person acquiring all or any portion of such business, assets or Subsidiary for the purpose of financing such acquisition;

Table of Contents

(n) Indebtedness arising from the making of Standard Securitization Undertakings by the Company or any Restricted Subsidiary;

(o) guarantees by the Company or a Restricted Subsidiary of Indebtedness that was permitted to be incurred by the Company or any Restricted Subsidiary under the Indenture; and

(p) Indebtedness of the Company or any Restricted Subsidiary, in addition to that described in clauses (a) through (o) of this definition, in an aggregate principal amount outstanding at any time that, when added to all other Indebtedness incurred pursuant to this clause (p) and then outstanding, shall not exceed the greater of $200 million and 7.5% of Consolidated Net Tangible Assets.

For the purposes of determining compliance with, and the outstanding principal amount of Indebtedness incurred pursuant to and in compliance with, this covenant, (i) in the event that Indebtedness meets the criteria of more than one of the types of Indebtedness described in the first and second paragraphs of this covenant, the Company, in its sole discretion, will classify, and may from time to time reclassify, such item of Indebtedness and only be required to include the amount and type of such Indebtedness in one of the clauses of the second paragraph or the first paragraph of this covenant; *provided* that Indebtedness incurred under the Credit Agreement prior to or on the Issue Date shall be treated as incurred pursuant to clause (b) of paragraph (2) above and (ii) any other obligation of the obligor on such indebtedness (or of any other person who could have incurred such indebtedness under this covenant) arising under any guarantee, Lien or letter of credit, bankers' acceptance or other similar instrument or obligation supporting such Indebtedness shall be disregarded to the extent that such guarantee, Lien or letter of credit, bankers' acceptance or other similar instrument or obligation secures the principal amount of such Indebtedness.

Limitation on Restricted Payments. The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly:

(a) declare or pay any dividend or make any other distribution or payment on or in respect of Capital Stock of the Company or any Restricted Subsidiary or make any payment to the direct or indirect holders (in their capacities as such) of Capital Stock of the Company or any Restricted Subsidiary (other than dividends or distributions payable solely in Capital Stock of the Company (other than Redeemable Capital Stock) or in options, warrants or other rights to purchase Capital Stock of the Company (other than Redeemable Capital Stock)) (other than the declaration or payment of dividends or other distributions to the extent declared or paid to the Company or any Restricted Subsidiary);

(b) purchase, redeem, defease or otherwise acquire or retire for value any Capital Stock of the Company or any Restricted Subsidiary or any options, warrants, or other rights to purchase any such Capital Stock (other than any such securities owned by the Company or a Restricted Subsidiary);

(c) make any principal payment on, or purchase, defease, repurchase, redeem or otherwise acquire or retire for value, prior to any scheduled maturity, scheduled repayment, scheduled sinking fund payment or other Stated Maturity, any Subordinated Indebtedness (other than (A) any such Subordinated Indebtedness owned by the Company or a Restricted Subsidiary or (B) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value (collectively, for purposes of this clause (c), a "purchase") of Subordinated Indebtedness in anticipation of satisfying a sinking fund obligation, principal installment, final maturity or exercise of a righ;;text-indent:0pt;;color:#000000;font-size:8pt;font-family:Times New Roman;font-weight:normal;font-style:normal;text-transform:none;font-variant: normal;">—

3,254

Foreign currency translation adjustments

—

—

—

—

—

—

(1,055

)

(1,055

)

Reclassification of gain on investments into earnings

—

—

—

—

—

—

39

39

Unrealized gain on investments, net of tax

—

—

—

—

—

—

(23

)

(23

)

Balances, March 31, 2018

17,109,949

17

236,131

$

(11,686

)

$

305,759

$

(5,357

)

$

(382

)

$

288,351

Balances, December 31, 2018

17,345,736

$

18

411,892

$

(25,679

)

$

332,592

$

15,261

$

(3,218

)

$

318,974

Stock-based compensation

—

—

—

—

4,966

—

—

4,966

Exercise of stock options and issuance of restricted stock

158,439

—

—

—

2,472

—

—

2,472

Repurchases of common stock

(33,732

)

—

33,732

(2,966

)

—

—

—

(2,966

)

Settlement and subsequent return of shares

(2,761

)

—

—

—

(300

)

—

—

(300

)

Net income

—

—

—

—

—

6,813

—

6,813

Foreign currency translation adjustments

—

—

—

—

—

—

740

740

Reclassification of gain on investments into earnings

—

—

—

—

—

—

90

90

Unrealized gain on investments, net of tax

—

—

—

—

—

—

(93

)

(93

)

Adoption of ASU 2018-02

—

—

—

—

—

—

8

8

Balances, March 31, 2019

17,467,682

$

18

445,624

$

(28,645

)

$

339,730

$

22,074

$

(2,473

)

$

330,704

See accompanying notes to these condensed consolidated financial statements.

6

SPS COMMERCE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in thousands)

	Three Months Ended March 31,	
	2019	2018
Cash flows from operating activities		
Net income	$6,813	$3,254
Reconciliation of net income to net cash provided by operating activities		
Deferred income taxes	838	1,020
Change in earn-out liability	56	—
Depreciation and amortization of property and equipment	2,637	2,083
Amortization of intangible assets	1,304	1,125
Provision for doubtful accounts	655	410
Stock-based compensation	5,294	3,533
Other, net	(240)	(32)
Changes in assets and liabilities		
Accounts receivable	(1,328)	(1,520)
Deferred costs	(414)	(1,628)
Other current and non-current assets	(337)	367
Accounts payable	353	317
Accrued compensation	(8,843)	(3,939)
Accrued expenses	60	(592)
Deferred revenue	3,698	3,680
Deferred rent	—	1,271
Operating leases	(345)	—
Net cash provided by operating activities	10,201	9,349
Cash flows from investing activities		
Purchases of property and equipment	(2,899)	(3,884)
Purchases of investments	(12,447)	(19,927)
Maturities of investments	15,225	17,500
Acquisitions of businesses and intangible assets, net of cash acquired	—	(381)
Net cash used in investing activities	(121)	(6,692)
Cash flows from financing activities		
Repurchases of common stock	(2,966)	(5,871)
Net proceeds from exercise of options to purchase common stock	2,472	715
Net cash used in financing activities	(494)	(5,156)
Effect of foreign currency exchange rate changes	270	(81)
Net increase (decrease) in cash and cash equivalents	9,856	(2,580)
Cash and cash equivalents at beginning of period	133,859	123,127
Cash and cash equivalents at end of period	$143,715	$120,547

See accompanying notes to these condensed consolidated financial statements.

7

SPS COMMERCE, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE A – General

Business Description

SPS Commerce is a leading provider of cloud-based supply chain management solutions that make it easier for retailers, suppliers, grocers, distributors and logistics firms to orchestrate the management of item data, order fulfillment, inventory control and sales analytics across all channels. The solutions offered by SPS Commerce eliminate the need for on-premise software and support staff by taking on that capability on the customer's behalf. The solutions SPS Commerce provides allow our customers to increase their supply cycle agility, optimize their inventory levels and sell-through, reduce operational costs and gain increased visibility into customer orders, ensuring that suppliers, grocers, distributors, and logistics firms can satisfy exacting retailer requirements.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of SPS Commerce, Inc. and its subsidiaries. All intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these condensed consolidated financial statements do not include all of the information and notes required by GAAP. We have included all normal recurring adjustments considered necessary to provide a fair presentation of our financial position, results of operations and cash flows for the interim periods shown. Operating results for these interim periods are not necessarily indicative of the results to be expected for the full year. For further information, refer to the consolidated financial statements and accompanying notes for the year ended December 31, 2018 included in our Annual Report on Form 10-K/A filed with the SEC.

Effective January 1, 2019, we adopted the requirements of Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842), and used the effective date as our date of initial application. Consequently, financial information was not updated and the disclosures required under the new standard were not provided for dates and periods before January 1, 2019. The new standard provides several optional practical expedients in transition. We elected the "package of practical expedients," which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. We did not elect the use-of hindsight or the practical expedient pertaining to land easements, the latter not being applicable to us. The new standard also provides practical expedients for an entity's ongoing accounting. We elected the short-term lease recognition exemption for all leases that qualify which means we will not recognize right-of-use ("ROU") assets or lease liabilities for these leases. This includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. We also elected the practical expedient to not separate lease and non-lease components for all leases.

Use of Estimates

Preparing financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Lease Policy

We determine if an arrangement is a lease at inception. Operating leases are included in operating lease ROU assets, current lease liabilities, and long-term lease liabilities in our consolidated balance sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. We estimate the discount rate for a similar collateralized asset by reviewing quoted costs of borrowing. We use the implicit interest rate when readily determinable. The operating lease ROU asset also includes any lease payments made and lease incentives that have been incurred. The options to extend our leases are not recognized as part of our right-of-use assets and lease liabilities unless it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. For all leases we combine non-lease components with the related lease components and account for it as a single lease component. The ROU assets are subject to the same impairment process as our long-lived assets. Additionally, we review our lease liabilities for remeasurement whenever there is a triggering event or when relevant facts and circumstances change.

Recently Adopted Accounting Pronouncements

Standard	Date of Issuance	Description	Date Adopted	Effect on the Financial Statements
ASU 2016-02, Leases and all related amendments	February 2016	Requires all leases with a term greater than 12 months to be recognized in the statements of financial position and eliminates current real estate-specific lease guidance, while maintaining substantially similar classification criteria for distinguishing between finance leases and operating leases.	January 2019	The adoption of this standard and related amendments resulted in the recognition of approximately $15.7 million in right-of-use assets and lease liabilities on our balance sheet as of January 1, 2019. Comparative periods will continue to be measured and presented under historical guidance, and only the period of adoption and future periods will be subject to this ASU. There was no cumulative effect on retained earnings or other components of equity at the adoption date. For more information see Note H.
ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220)	February 2018	Allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act and requires certain disclosures regarding stranded tax effects in accumulated other comprehensive income.	January 2019	The adoption of this standard did not have a material impact on our consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

Standard	Date of Issuance	Description	Date of Required Adoption	Effect on the Financial Statements
ASU 2016-13, Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Statements	June 2016	The amendment in this update replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses on instruments within its scope, including trade receivables. This update is intended to provide financial statement users with more decision-useful information about the expected credit losses.	January 2020	We are currently evaluating the impact of the adoption on our consolidated financial statements.

Significant Accounting Policies

Except for the accounting policy for leases that was updated as a result of adopting ASU 2016-02, there were no material changes in our significant accounting policies during the three months ended March 31, 2019. See Note A to the consolidated financial statements included in our Annual Report on Form 10-K/A for the year ended December 31, 2018, as filed with the SEC, for additional information regarding our significant accounting policies.

9

NOTE B – Business Acquisitions

EDIAdmin

On October 3, 2018, we completed our asset acquisition of EDIAdmin, a privately held company providing end-to-end integration solutions, featuring a dedicated Integration Platform as a Service (“iPaaS”) called Cloud Hybrid Integration Platform (“CHIP”) and collaborative managed services for leading systems and applications, both cloud and on-premise. Pursuant to the asset purchase agreement, we paid $7.5 million in cash to the owner of EDIAdmin. The purchase agreement also allowed the seller to receive up to $1.7 million in cash, which becomes payable in first quarter 2020 and 2021 contingent upon the completion of certain revenue milestones at December 31, 2019 and December 31, 2020. The fair value of this contingent consideration was $1.3 million at the date of acquisition and $1.4 million at March 31, 2019. During the quarter ended March 31, 2019, we recognized expense of $0.1 million in our consolidated statements of comprehensive income due to the remeasurement of the contingent liability. See Note E for further disclosures on the remeasurement of the contingent liability.

We allocated the purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The excess of the purchase price over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. Goodwill is attributed to a trained workforce and other buyer-specific value resulting from expected synergies, including long-term cost savings, which are not included in the fair values of identifiable assets. The purchase accounting for the EDIAdmin acquisition was complete as of December 31, 2018. The consolidated balance sheet as of December 31, 2018 reflects the final allocation of the purchase price to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition.

CovalentWorks

On December 18, 2018, we completed our asset acquisition of CovalentWorks, a privately held company providing cloud-based EDI solutions to small- and medium-sized businesses. Pursuant to the asset purchase agreement, we paid $19.4 million in cash and issued $3.4 million in common stock, or 40,478 shares, to the owners of CovalentWorks.

We allocated the purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The excess of the purchase price over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. Goodwill is attributed to a trained workforce and other buyer-specific value resulting from expected synergies, including long-term cost savings, which are not included in the fair values of identifiable assets. The purchase accounting for the CovalentWorks acquisition was finalized during the first quarter of 2019. The purchase price allocation and net working capital adjustment were finalized during the first quarter of 2019. During the quarter ended March 31, 2019, there were no adjustments to the purchase price allocation.

NOTE C – Revenue

We derive our revenues primarily from the following revenue streams (in thousands):

	Three Months Ended March 31,	
	2019	2018
Recurring revenues:		
Fulfillment	$52,445	$45,364
Analytics	8,873	8,259
Other	1,428	1,237
Recurring Revenues	62,746	54,860
One-time revenues	4,188	4,232
	$66,934	$59,092

Revenues are recognized when our services are made available to our customers, in an amount that reflects the consideration we are contractually and legally entitled to in exchange for those services.

We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price

- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, we satisfy a performance obligation

Recurring Revenues

Recurring revenues consists of recurring subscriptions from customers that utilize our Fulfillment, Analytics, and Other cloud-based supply chain management solutions. Revenue for these solutions is generally recognized on a ratable basis over the contract term beginning on the date that our service is made available to the customer. Our contracts with our recurring revenue customers are recurring in nature, ranging from monthly to annual, and generally allow the customer to cancel the contract for any reason with 30 to 90 days' notice. Timing of billings varies by customer and by contract type and are either in advance or within 30 days of the service being performed.

The deferred revenue liability for recurring revenue contracts are for one year or less and recognized on a ratable basis over the contract term. We have applied the optional exemption under ASC 606-10-50-14(a) and will not disclose information about the remaining performance obligations for contracts which have original durations of one year or less.

One-time Revenues

One-time revenues consist of set-up fees from customers and miscellaneous one-time fees.

Set-up fees are specific for each connection a customer has with a trading partner and many of our customers have connections with numerous trading partners. Set-up fees related to our cloud-based supply chain management solutions are nonrefundable upfront fees that are necessary for our customers to utilize our cloud-based services. These set-up fees do not provide any standalone value to our customers. Except for our Analytics platform, we have determined the set-up fees represent a material renewal option right to our customers as they will not be incurred again upon renewal. These set-up fees and related costs are deferred and recognized ratably over two years, which is the estimated connection life between the customer and the trading partner. For our Analytics platform, we have determined the set-up fees do not represent a material customer renewal right and, as such, are deferred and recognized ratably over the estimated initial contract term, which is one year.

The table below presents the activity of the portion of the deferred revenue liability relating to set-up fees (in thousands):

	Three Months Ended March 31,	
	2019	2018
Balances, at beginning of period	$9,857	$10,031
Invoiced set-up fees	2,537	2,581
Amortized set-up fees	(2,581)	(2,660)
Balances, at end of period	$9,813	$9,952

The entire balance of set-up fees will be recognized within two years and, as such, current amounts will be recognized in the next 1-12 months and long-term amounts will be recognized in the next 13-24 months.

Miscellaneous one-time fees consist of professional services and testing and certification. The deferred revenue liability for these one-time fees are for one year or less and recognized at the time service is provided.

We have applied the optional exemption under Accounting Standards Codification ("ASC") 606-10-50-14(a) and will not disclose information about the remaining performance obligations for contracts which have original durations of one year or less.

NOTE D – Deferred Costs

Deferred costs consist of costs to obtain customer contracts, such as commissions paid to sales personnel and to third-party partners for customer referrals, and costs to fulfill customer contracts, such as customer implementation costs.

Sales commissions relating to recurring revenues are considered incremental and recoverable costs of obtaining a contract with our customer. These commissions are calculated based on estimated annual recurring revenue to be generated over the customer's initial contract year. These costs are deferred and amortized over the expected period of benefit which we have determined to be two years. Amortization expense is included in sales and marketing expenses in the accompanying condensed consolidated statements of operations.

The table below presents the activity of deferred costs and amortization of deferred costs (in thousands):

	Three Months Ended March 31,	
	2019	2018
Balances, at beginning of period	$45,475	$39,933
Incurred deferred costs	12,332	12,506
Amortized deferred costs	(11,916)	(10,882)
Balances, at end of period	$45,891	$41,557

NOTE E – Financial Instruments

We invest primarily in money market funds, certificates of deposit, highly liquid debt instruments of the U.S. government and U.S. corporate debt securities. All investments with remaining maturities less than one year from the balance sheet date are classified as short-term investments. Investments with remaining maturities of more than one year from the balance sheet date are classified as long-term investments. As of March 31, 2019 and December 31, 2018, all of our investments held were classified as short-term.

Our short-term marketable securities are classified as available-for-sale. We intend to hold marketable securities until maturity; however, we may sell these securities at any time for use in current operations or for other purposes.

Our marketable securities are carried at fair value and unrealized gains and losses on these investments, net of taxes, are included in accumulated other comprehensive loss in the consolidated balance sheets. Realized gains or losses are included in other income (expense), net in the consolidated statements of comprehensive income. When a determination has been made that an other-than-temporary decline in fair value has occurred, the amount of the decline that is related to a credit loss is realized and is included in other income (expense), net in the consolidated statements of comprehensive income.

Cash equivalents and short-term investments consisted of the following (in thousands):

	March 31, 2019		
	Amortized Cost	Unrealized Gains (Losses)	Fair Value
Cash equivalents:			
Money market funds	$113,516	$ —	$113,516
Certificate of deposit	6,804	—	6,804
Marketable securities:			
Corporate bonds	12,502	7	12,509
Commercial paper	7,440	41	7,481
U.S. treasury securities	14,787	102	14,889
Total	$155,049	$ 150	$155,199

	December 31, 2018		
	Amortized Cost	Unrealized Gains (Losses)	Fair Value
Cash equivalents:			
Money market funds	$109,265	$ —	$109,265
Certificate of deposit	7,000	—	7,000
Marketable securities:			
Corporate bonds	15,194	40	15,234
Commercial paper	9,889	76	9,965
U.S. treasury securities	12,300	38	12,338
Total	$153,648	$ 154	$153,802

We do not believe any of the unrealized losses represent an other-than-temporary impairment based on our valuation of available evidence as of March 31, 2019. We expect to receive the full principal and interest on all of these cash equivalents, certificate of deposit, and marketable securities.

Fair Value Measurements

We measure certain financial assets at fair value on a recurring basis based on a fair value hierarchy that requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of inputs that may be used to measure fair value are:

- Level 1 – quoted prices in active markets for identical assets or liabilities
- Level 2 – observable inputs other than Level 1 prices, such as: (a) quoted prices for similar assets or liabilities, (b) quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or (c) model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities. We obtain the fair values of our level 2 available-for-sale securities from a professional pricing service.
- Level 3 – unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

For the earn-out liability related to the EDIAdmin acquisition, the Company utilized the Monte Carlo simulation method to estimate the fair value of this contingent liability as of the reporting date. Thousands of iterations of the simulation were performed using forecasted revenues to develop a distribution of future values of recurring revenue which, in turn, provide indicated earn-out payments. The total estimated fair value equals the sum of the average present values of the indicated earn-out payments. Changes in assumptions described above could have an impact on the payout of contingent consideration with a maximum payout being $1.7 million. The earn-out liability has been measured as Level 3 given the unobservable inputs that are significant to the measurement of the liability.

The following table presents information about our financial assets that are measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value (in thousands):

	March 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market funds	$113,516	$—	$—	$113,516
Certificate of deposit	6,804	—	—	6,804
Marketable securities:				
Corporate bonds	—	12,509	—	12,509
Commercial paper	—	7,481	—	7,481
U.S. treasury securities	—	14,889	—	14,889
Total	$120,320	$34,879	$—	$155,199
Liabilities:				
Earn-out liability	$—	$—	$1,424	$1,424
Total	$—	$—	$1,424	$1,424

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market funds	$109,265	$—	$—	$109,265
Certificate of deposit	7,000	—	—	7,000
Marketable securities:				
Corporate bonds	—	15,234	—	15,234
Commercial paper	—	9,965	—	9,965
U.S. treasury securities	—	12,338	—	12,338
Total	$116,265	$37,537	$—	$153,802
Liabilities:				
Earn-out liability	$—	$—	$1,368	$1,368
Total	$—	$—	$1,368	$1,368

NOTE F – Goodwill and Intangible Assets, net

The changes in the net carrying amount of goodwill for the three months ended March 31, 2019 are as follows (in thousands):

	2019
Balances, January 1	$69,658
Goodwill acquired during the period	—
Foreign currency translation adjustments	417
Balances, March 31	$70,075

Intangible assets subject to amortization primarily include subscriber relationships, non-competition agreements and acquired technology and are amortized over their respective useful lives (ranging from 1 to 10 years). Intangible assets, net included the following (in thousands):

	March 31, 2019			
	Carrying Amount	Accumulated Amortization	Foreign Currency Translation	Net
Subscriber relationships	$42,240	$ (24,034)	$ 117	$18,323
Non-competition agreements	2,495	(2,251)	6	250
Technology and other	5,002	(2,010)	7	2,999

	$49,737	$ (28,295)	$ 130	$21,572

	December 31, 2018			
	Carrying Amount	Accumulated Amortization	Foreign Currency Translation	Net
Subscriber relationships	$43,212	$ (23,284)	$ (623)	$19,305
Non-competition agreements	2,560	(2,247)	(28)	285
Technology and other	5,199	(2,012)	(36)	3,151
	$50,971	$ (27,543)	$ (687)	$22,741

14

Total amortization expense for intangible assets during the three months ended March 31, 2019 and 2018 was $1.3 million and $1.1 million, respectively. The estimated annual amortization expense related to intangible assets subject to amortization for the next five years is as follows (in thousands):

Remainder of 2019	$3,793
2020	4,706
2021	3,869
2022	2,766
2023	2,691
Thereafter	3,747
	$21,572

NOTE G – Other Assets

The changes in the net amount of capitalized implementation costs for internal-use software from hosting arrangements for the period ended March 31, 2019 is as follows (in thousands):

	2019
Balances, at beginning of period	$455
Capitalized implementation fees	255
Amortization of implementation fees	(10)
Balances, at end of period	$700

There were no impairment losses in relation to the capitalized implementation costs for the period presented.

NOTE H – Leases

We are obligated under non-cancellable operating leases, primarily for office space and certain equipment as follows (in thousands):

	March 31, 2019	
	Remaining Term (years)	Right-of-Use Asset
Minneapolis, MN lease	6	11,817
Little Falls, NJ lease	4	1,869
Other leases	1-3	1,548

$ 15,234

Some of our leases may include options to extend the leases for up to 5 years. The options to extend our leases are not recognized as part of our right-of-use assets and lease liabilities as it is not reasonably certain that we will exercise those options. Additionally, our agreements do not include options to terminate the leases.

On December 20, 2017, we executed the fourth amendment to our lease agreement for our current headquarters located in Minneapolis, Minnesota where we lease approximately 189,000 square feet under an agreement that expires on April 30, 2025. We have agreed to expand our headquarters premises by approximately 25,000 square feet during 2020. Our lease agreement also includes a further expansion right and a right of first offer to lease certain additional space and two options to extend the term of the lease for five years at a market rate determined in accordance with the lease. Incentives of $6.4 million are included as a lease component.

On February 25, 2016, we executed the first amendment to our lease agreement for our Little Falls, New Jersey location where we lease approximately 26,000 square feet under an agreement that expires on June 30, 2023. The agreement includes an option to extend the term of the lease for five years at a market rate determined in accordance with the lease. Incentives of $0.9 million are included as a lease component.

The components of lease expense were as follows (in thousands):

	Three Months Ended March 31, 2019
Operating lease cost	$ 686
Variable lease cost	804
	$ 1,490

Operating lease cost for short-term leases was not material for the three months ended March 31, 2019.

Other information related to leases was as follows (in thousands, except lease term and discount rate):

	Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	1,033
Right-of-use assets obtained in exchange for operating lease liabilities	—
Weighted-average remaining lease term - operating leases	5.5 years
Weighted-average discount rate - operating leases	4.5 %

The right-of-use assets obtained in exchange for operating lease liabilities excludes the transition amount of $15.7 million.

At March 31, 2019, our future minimum payments under operating leases were as follows (in thousands):

Remainder of 2019	$3,289
2020	3,647
2021	4,491
2022	4,042
2023	3,855
Thereafter	4,817
	24,141
Less: imputed interest	(2,909)
	$21,232

NOTE I – Stock-Based Compensation

Our equity compensation plans provide for the grant of incentive and nonqualified stock options, as well as other stock-based awards including restricted stock and restricted stock units ("RSU"), to employees, non-employee directors and other consultants who provide services to us. For other stock-based awards, new shares are issued when the award is exercised, vested or released according to the terms of the agreement.

Restricted stock awards result in the issuance of new shares when granted. For other stock-based awards, new shares are issued when the award is exercised, vested or released according to the terms of the agreement. In February 2019, 1,040,744 additional shares were reserved for future issuance under our 2010 Equity Incentive Plan. At March 31, 2019, there were approximately 6,195,941 million shares available for grant under approved equity compensation plans.

We recognize stock-based compensation expense on a straight-line basis over the vesting period, except for expense relating to retirement-eligible employees which is recognized immediately upon the employee becoming retirement-eligible.

Stock-based compensation expense was allocated in the condensed consolidated statements of comprehensive income as follows (in thousands):

	Three Months Ended March 31,	
	2019	2018
Cost of revenues	$587	$548
Operating expenses		
Sales and marketing	730	653
Research and development	523	329
General and administrative	3,454	2,003
Total stock-based compensation expense	$5,294	$3,533

Stock-based compensation expense by plan type was as follows (in thousands):

	Three Months Ended March 31,	
	2019	2018
Stock options	$1,274	$1,254
Performance share units	923	812
Restricted stock units	2,443	922
Restricted stock awards	136	80
Employee stock purchase plan	190	113
401(k) stock match	328	352
Total stock-based compensation expense	$5,294	$3,533

As of March 31, 2019, there was approximately $18.8 million of unrecognized stock-based compensation expense under our equity compensation plans, which is expected to be recognized on a straight-line basis over a weighted average period of 2.9 years.

Stock Options

Stock options generally vest over four years and have a contractual term of seven to ten years from the date of grant. Our stock option activity was as follows:

	Options (#)	Weighted Average Exercise Price ($/share)
Outstanding at December 31, 2018	873,234	$ 51.86
Granted	69,943	109.07
Exercised	(68,339)	44.34

Forfeited	(7,158)	56.00
Outstanding at March 31, 2019	867,680	

Of the total outstanding options at March 31, 2019, 579,772 were exercisable with a weighted average exercise price of $51.65 per share. The total outstanding options had a weighted average remaining contractual life of 3.4 years.

The weighted average grant date fair value of options granted during the first three months of 2019 was $34.80. This was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

Volatility	33.1 %
Dividend yield	0 %
Life (in years)	4.6
Risk-free interest rate	2.47 %

Performance Share Units and Restricted Stock Units and Awards

In February 2017, our executive officers were granted performance share unit ("PSU") awards with vesting contingent on successful attainment of pre-determined revenue targets over the course of a three-year performance period (fiscal years 2017 – 2019). The fair value is measured as the number of performance shares expected to be earned multiplied by the grant date fair value of our shares. The number of performance shares expected to vest during the current service period is estimated and the fair value of those shares is recognized over the remaining service period less any amounts already recognized.

In February 2018 and 2019, our executive officers were granted PSU awards with vesting contingent on the Company's total shareholder return as compared to indexed total shareholder return over the course of a three-year performance period (fiscal years 2018 – 2020 and fiscal years 2019 – 2021, respectively). The grant date fair value was estimated using a Monte Carlo simulation that utilizes multiple input variables that determine the probability of satisfying the performance conditions stipulated in the award and calculates the fair market value for the performance stock units granted. Expense is recognized on a straight-line basis over the vesting period, regardless of whether the market condition is satisfied.

Restricted stock units vest over four years and, upon vesting, the holder is entitled to receive shares of our common stock. With restricted stock awards, shares of our common stock are issued when the award is granted and the restrictions lapse over one year.

Activity for our performance share units and restricted stock units was as follows:

	Performance Share and Restricted Stock Units (#)	Weighted Average Grant Date Fair Value ($/share)
Outstanding at December 31, 2018	377,335	$ 59.90
Granted	69,581	115.56
Vested and common stock issued	(95,312)	57.53
Forfeited	(5,104)	58.28
Outstanding at March 31, 2019	346,500	

The number of restricted stock units outstanding at March 31, 2019 included 6,924 units that have vested, but for which shares of common stock have not yet been issued pursuant to the terms of the agreement.

Our restricted stock awards activity was as follows:

	Restricted Stock Awards (#)	Weighted Average Grant Date Fair Value ($/share)
Outstanding at December 31, 2018	1,832	$ 74.44
Restricted common stock issued	—	—
Restrictions lapsed	(1,832)	74.43

Forfeited	—	—
Outstanding at March 31, 2019	—	

Employee Stock Purchase Plan

We have an employee stock purchase plan allows participating employees to purchase shares of our common stock at a discount through payroll deductions. The plan is available to all employees subject to certain eligibility requirements. Participating employees may purchase common stock, on a voluntary after tax basis, at a price that is the lower of 85% of the fair market value of one share of common stock at the beginning or end of each stock purchase period. The plan consists of two six-month offering periods, beginning on January 1 and July 1 of each calendar year, respectively. A total of 1.0 million shares of common stock are reserved for issuance under the plan.

For the offering periods that began on January 1, 2019 and January 1, 2018, we withheld approximately $0.6 million and $0.5 million from employees participating in the plan for the three months ending March 31, 2019 and March 31, 2018, respectively.

The fair value was estimated based on the market price of our common stock at the beginning of the offering period using the Black-Scholes option pricing model with the following assumptions:

Volatility	40	%
Dividend yield	0	%
Life (in years)	0.5	
Risk-free interest rate	2.56	%

401(k) Stock Match

We sponsor a 401(k) retirement savings plan for our U.S. employees where employees can contribute up to 100% of their compensation, subject to the limits established by law. In 2018, we increased our match to 50% of the employee's elective deferrals, up to the first 6% of the employee's pre-tax compensation for each pay period. A portion of our match is in company stock, which is purchased from the open market by our plan provider and immediately deposited into the employee's 401(k) account. Additionally, we make statutory contributions to retirement plans as required by local foreign government regulations.

NOTE J – Income Taxes

We record our interim provision for income taxes by applying our estimated annual effective tax rate to our year-to-date pretax income and adjust the provision for discrete tax items recorded in the period. Differences between our effective tax rate and statutory tax rates are primarily due to the impact of permanently non-deductible expenses partially offset by the federal research and development credits. Additionally, excess tax benefits generated upon settlement or exercise of stock awards are recognized as a reduction to income tax expense as a discrete tax item in the quarter that the event occurs creating potentially significant fluctuation in tax expense by quarter and by year. Our provisions for income taxes include current foreign and state income tax expense, as well as deferred tax expense.

As of March 31, 2019 we do not have any unrecognized tax benefits nor any accrued interest or tax penalties.

NOTE K – Net Income Per Share

Basic net income per share has been computed using the weighted average number of shares of common stock outstanding during each period. Diluted net income per share also includes the impact of our outstanding potential common shares, including options and restricted stock units. Potential common shares that are anti-dilutive are excluded from the calculation of diluted net income per share.

The following table presents the components of the computation of basic and diluted net income per share for the periods indicated (in thousands, except per share amounts):

	Three Months Ended

	March 31,	
	2019	2018
Numerator		
Net income	$6,813	$3,254
Denominator		
Weighted average common shares outstanding, basic	17,471	17,093
Options to purchase common stock	361	152
Restricted stock units	160	62
Weighted average common shares outstanding, diluted	17,992	17,307
Net income per share		
Basic	$0.39	$0.19
Diluted	$0.38	$0.19
Antidilutive shares (in thousands)	69	275

19

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Overview

SPS Commerce is a leading provider of cloud-based solutions that make it easier for retailers, suppliers, grocers, distributors and logistics firms to orchestrate the management of item data, order fulfillment, inventory control and sales analytics across all channels. The solutions offered by SPS Commerce eliminate the need for on-premise software and support staff by taking on that capability on the customer's behalf. We derive the majority of our revenues from numerous monthly recurring subscriptions from business that utilize our solutions.

We plan to continue to grow our business by further penetrating the supply chain management market, increasing revenues from our customers as their businesses grow, expanding our distribution channels, expanding our international presence and, from time to time, developing new solutions and applications. We also intend to selectively pursue acquisitions that will add customers, allow us to expand into new regions, or allow us to offer new functionalities.

For the three months ended March 31, 2019, our revenues were $66.9 million, an increase of 13% from the comparable period in 2018, and represented our 73rd consecutive quarter of increased revenues. Total operating expenses increased 8% for the same period in 2019 from 2018.

Key Financial Terms and Metrics

We have several key financial terms and metrics, including annualized average recurring revenues per recurring revenue customer, which we also refer to as wallet share. During the three months ended March 31, 2019, there were no changes in the definitions of our key financial terms and metrics, which are discussed in more detail under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K/A for the year ended December 31, 2018 as filed with the SEC.

To supplement our financial statements, we also provide investors with Adjusted EBITDA and non-GAAP income per share, both of which are non-GAAP financial measures. We believe that these non-GAAP measures provide useful information to management and investors regarding certain financial and business trends relating to our financial condition and results of operations. Our management uses these non-GAAP measures to compare the company's performance to that of prior periods for trend analyses and planning purposes. Adjusted EBITDA is also used for purposes of determining executive and senior management incentive compensation. These measures are presented to our board of directors.

These non-GAAP measures should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP. These non-GAAP financial measures exclude significant expenses and income that are required by GAAP to be recorded in our financial statements and are subject to inherent limitations. Investors should review the reconciliations of non-GAAP financial measures to the comparable GAAP financial measures that are included in this "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Critical Accounting Policies and Estimates

This discussion of our financial condition and results of operations is based upon our condensed consolidated financial statements, which are prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of

assets, liabilities, revenues, costs and expenses and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions. We base our estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that we believe to be reasonable. Our actual results may differ from these estimates under different assumptions or conditions.

A critical accounting policy is one that is both material to the presentation of our financial statements and requires us to make difficult, subjective or complex judgments relating to uncertain matters that could have a material effect on our financial condition and results of operations. Accordingly, we believe that our policies for revenue recognition and income taxes are the most critical to fully understand and evaluate our financial condition and results of operations.

During the three months ended March 31, 2019, there were no changes in our critical accounting policies or estimates, other than the adoption of ASU No. 2016-02. See Note A to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K/A for the year ended December 31, 2018, as filed with the SEC, for additional information regarding our accounting policies.

Results of Operations

Three months ended March 31, 2019 compared to three months ended March 31, 2018

The following table presents our results of operations for the periods indicated (dollars in thousands):

	Three Months Ended March 31,				Change	
	2019		2018			
		% of revenue		% of revenue	$	%
Revenues	$66,934	100.0 %	$59,092	100.0 %	$7,842	13.3 %
Cost of revenues	21,367	31.9	19,758	33.4	1,609	8.1
Gross profit	45,567	68.1	39,334	66.6	6,233	15.8
Operating expenses						
Sales and marketing	17,922	26.8	18,647	31.6	(725)	(3.9)
Research and development	6,192	9.3	5,132	8.7	1,060	20.7
General and administrative	12,770	19.1	10,130	17.1	2,640	26.1
Amortization of intangible assets	1,304	1.9	1,125	2.0	179	15.9
Total operating expenses	38,188	57.1	35,034	59.4	3,154	9.0
Income from operations	7,379	11.0	4,300	7.2	3,079	71.6
Other income (expense)						
Interest income, net	577	0.9	414	0.7	163	39.4
Other expense, net	(47)	(0.1)	(154)	(0.3)	107	69.5
Change in earn-out liability	(56)	(0.1)	—	0.0	(56)	(100.0)
Total other income, net	474	0.7	260	0.4	214	82.3
Income before income taxes	7,853	11.7	4,560	7.6	3,293	72.2
Income tax expense	1,040	1.6	1,306	2.2	(266)	(20.4)
Net income	$6,813	10.1 %	$3,254	5.4 %	$3,559	109.4 %

Revenues. The increase in revenues resulted from two primary factors: the increase in recurring revenue customers and the increase in annualized average recurring revenues per recurring revenue customer, which we also refer to as wallet share.

- The number of recurring revenue customers increased 14% to 29,466 at March 31, 2019 from 25,888 at March 31, 2018.
- Annualized average recurring revenues per recurring revenue customer, or wallet share, stayed level at $8,541 for the three months ended March 31, 2019 from $8,499 for the same period in 2018. The consistent wallet share is due to the increase in recurring revenue customers.

Recurring revenues from recurring revenue customers accounted for 94% of our total revenues for the three months ended March 31, 2019, increasing from 93% for the same period in 2018. We anticipate that the number of recurring revenue customers and wallet share will continue to increase as we increase the number of solutions we offer and increase the penetration of those solutions across our customer base.

Cost of Revenues. The increase in cost of revenues for the three months ended March 31, 2019 was primarily due to an increase in personnel-related costs of $1.0 million, driven by increased salaries and benefits due to business growth and by increased contract labor. As we continued to invest in the infrastructure supporting our platform, depreciation expense increased by $0.5 million compared to the same period in 2018.

Sales and Marketing Expenses. The decrease in sales and marketing expenses for the three months ended March 31, 2019 was due to decreased headcount, which resulted in a decrease of $1.4 million in personnel-related costs, offset by an increase of $0.3 million in variable compensation earned by sales personnel and referral partners due to business growth, and by a $0.3 million increase in promotional expenses, compared to the same period in 2018.

Research and Development Expenses. The increase in research and development expense for the three months ended March 31, 2019 was primarily due to increased headcount which resulted in an increase in personnel costs of $0.8 million and an increase in stock-based compensation expense of $0.2 million.

General and Administrative Expenses. The increase in general and administrative expenses for the three months ended March 31, 2019 was primarily due to an increase of $1.5 million in stock-based compensation driven by the timing of the Chief Executive Officer’s 2019 RSU grants compared to his 2018 RSU grants, which resulted in immediate vesting, and expensing, based on retirement eligibility. As a result of continued business growth, personnel-related costs increased $0.5 million, cloud-based and software subscriptions increased $0.3 million, and bad debt expense increased $0.2 million, compared to the same period in 2018.

Other Income (Expense). Interest income, net, other expense, net, and change in earn-out liability for the three months ended March 31, 2019 increased over the same period in 2018 primarily due to other income of $0.3 million related to settlement and subsequent return of escrowed shares from the Toolbox acquisition partially offset by decreased interest income from investments and lower realized foreign currency exchange gains. Change in earn-out liability for the three months ended March 31, 2019 included $0.1 million expense driven by an adjustment to the fair value of the EDIAdmin due to estimated revenue at the earn-out measurement dates, December 31, 2019 and December 31, 2020.

Income Tax Expense. We recorded income tax expense of $1.0 million for the three months ended March 31, 2019 compared to income tax expense of $1.3 million for three months ended March 31, 2018. The decrease in income tax expense for the three months ended March 31, 2019 was primarily due to discrete tax benefits from stock activity increasing $1.0 million for the three months ended March 31, 2019 compared to the same period in 2018, partially offset by an increase in pre-tax income. Under ASU 2016-09, excess tax benefits generated upon the settlement or exercise of stock awards are no longer recognized as additional paid-in capital but are instead recognized as a reduction to income tax expense. As a result of recording these excess tax benefits in income tax expense, we expect that our annual effective income tax rate will be more volatile than it has been historically.

Adjusted EBITDA. Adjusted EBITDA, which is a non-GAAP measure of financial performance, consists of net income adjusted for depreciation and amortization, interest expense, interest income, income tax expense, stock-based compensation expense, the discrete impact from tax law change, and other adjustments as necessary for a fair presentation. Other adjustments included the impact of the fair value adjustment for the EDIAdmin earn-out liability, returned escrow shares related to the Toolbox acquisition, and an impairment of internally developed software. The following table provides a reconciliation of net income to Adjusted EBITDA (in thousands):

	Three Months Ended March 31,	
	2019	2018
Net income	$6,813	$3,254
Depreciation and amortization of property and equipment	2,637	2,083
Amortization of intangible assets	1,304	1,125
Interest income, net	(577)	(414)
Income tax expense	1,040	1,306
Stock-based compensation expense	5,294	3,533
Other	(61)	—
Adjusted EBITDA	$16,450	$10,887

Non-GAAP Income per Share. Non-GAAP income per share, which is also a non-GAAP measure of financial performance, consists of net income plus stock-based compensation expense, amortization expense related to intangible assets, the discrete impact from tax law change and other adjustments as necessary for a fair presentation, divided by the weighted average number of shares of common stock outstanding during each period. Other adjustments included the impact of the fair value adjustment for the EDIAdmin earn-out liability, returned escrow shares related to the Toolbox acquisition, and an impairment of internally developed software. The following table provides a reconciliation of net income to non-GAAP income per share (in

thousands, except per share amounts):

	Three Months Ended March 31,	
	2019	2018
Net income	$6,813	$3,254
Stock-based compensation expense	5,294	3,533
Amortization of intangible assets	1,304	1,125
Income tax effects of adjustments	(2,643)	(1,153)
Other	(61)	—
Non-GAAP income	$10,707	$6,759
Shares used to compute non-GAAP income per share		
Basic	17,471	17,093
Diluted	17,992	17,307
Non-GAAP income per share		
Basic	$0.61	$0.40
Diluted	$0.60	$0.39

Liquidity and Capital Resources

At March 31, 2019, our principal sources of liquidity were cash, cash equivalents, certificates of deposit and marketable securities of $185 million and accounts receivable, net of allowance for doubtful accounts, of $28 million. Certificates of deposit and marketable securities are invested in accordance with our investment policy, with a goal of maintaining liquidity and capital preservation. Our cash equivalents and marketable securities are held in highly liquid money market funds, commercial paper, federal agency securities and corporate debt securities.

The below table summarizes the activity within the statement of cash flows:

	Three Months Ended March 31,	
	2019	2018
Net cash provided by operating activities	10,201	9,349
Net cash used in investing activities	(121)	(6,692)
Net cash used in financing activities	(494)	(5,156)

Net Cash Flows from Operating Activities

The increase in operating cash flows as compared to the same period in 2018 was primarily due to increased net income, stock-based compensation, and deferred costs, offset by decreases in accrued compensation related to timing of payroll and deferred rent due to the adoption of ASC 842, Leases.

Net Cash Flows from Investing Activities

The change in net cash used in investing activities compared to the same period in 2018 was primarily due to capital expenditures and maturities of investments in excess of purchases in investments. For the three months ended March 31, 2019, investments matured, net of purchases, of $2.8 million and capital expenditures of $2.9 million compared to net purchases of $2.4 million and capital expenditures of $3.9 million in the three months ended March 31, 2018. Our capital expenditures are for supporting our business growth and existing customer base, as well as for our internal use such as equipment for our employees.

Net Cash Flows from Financing Activities

The change in net cash used in financing activities as compared to the same period in 2018 was primarily due to the increase in net proceeds from stock option exercises and decrease in cash used for share repurchases.

Effect of Foreign Currency Exchange Rate Changes

Our results of operations and cash flows were not materially affected by fluctuations in foreign currency exchange rates. We maintain approximately 6% of our total cash and cash equivalents outside of the U.S. in foreign currencies, primarily in Australian and Canadian dollars. We believe that a significant change in foreign currency exchange rates or an inability to access these funds would not affect our ability to meet our operational needs.

Adequacy of Capital Resources

Our future capital requirements may vary significantly from those now planned and will depend on many factors, including:

- costs to develop and implement new solutions and applications, if any;
- sales and marketing resources needed to further penetrate our market and gain acceptance of new solutions and applications that we may develop;
- expansion of our operations in the United States and internationally;
- response of competitors to our solutions and applications; and,
- use of capital for acquisitions, if any.

Historically, we have experienced increases in our expenditures consistent with the growth in our operations, and we anticipate that our expenditures will continue to increase as we expand our business.

We believe our cash, cash equivalents, certificates of deposit, marketable securities and our cash flows from operations will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months.

Inflation and changing prices did not have a material effect on our business during the three months ended March 31, 2019 and we do not expect that inflation or changing prices will materially affect our business in the foreseeable future.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, investments in special purpose entities or undisclosed borrowings or debt. Additionally, we are not a party to any derivative contracts or synthetic leases.

Contractual and Commercial Commitment Summary

Our contractual obligations and commercial commitments as of March 31, 2019 are summarized below:

	Payments Due By Period (in thousands)				
Contractual Obligations	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Operating lease obligations, including imputed interest	$24,141	$3,289	$8,138	$7,897	$4,817

Item 3. Quantitative and Qualitative Disclosures About Market Risk
Interest Rate Sensitivity Risk

The principal objectives of our investment activities are to preserve principal, provide liquidity and maximize income consistent with minimizing risk of material loss. We are exposed to market risk related to changes in interest rates. However, based on the nature and current level of our investments (primarily cash and cash equivalents, which approximate fair value due to their short maturities, certificates of deposit and marketable securities), we believe there is no material risk exposure. We do not enter into investments for trading or speculative purposes.

We did not have any outstanding debt as of March 31, 2019. Therefore, we do not have any material risk to interest rate fluctuations.

Foreign Currency Exchange Risk

We have revenue, expenses, assets and liabilities that are denominated in currencies other than the U.S. dollar, primarily the Australian dollar and Canadian dollar. As of March 31, 2019, we maintained approximately 6% of our total cash and cash equivalents outside of the U.S. in foreign currencies. We believe that a significant change in foreign currency exchange rates or an inability to access these funds would not affect our ability to meet our operational needs. As we expand internationally, our results of operations and cash flows may be impacted by changes in foreign currency exchange rates, and would be adversely impacted when the U.S. dollar appreciates relative to other foreign currencies. We have not used any forward contracts or currency

borrowings to hedge our exposure to foreign currency exchange risk, although we may do so in the future.

Item 4. Controls and Procedures
Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, our management has evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2019.

In the fourth quarter of 2018, we acquired the assets of two separate entities, EDIAdmin and CovalentWorks. EDIAdmin and CovalentWorks represented approximately two percent and six percent of our total consolidated assets, respectively. EDIAdmin and CovalentWorks each represented less than one percent of our consolidated revenues as of and for the year ended December 31, 2018. As these acquisitions occurred in 2018, the scope of our assessment of the effectiveness of internal control over financial reporting does not include EDIAdmin and CovalentWorks. This exclusion is in accordance with the SEC's general guidance that an assessment of a recently acquired business may be omitted from the assessment of the effectiveness of internal control over financial reporting in the year of acquisition.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. – OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently subject to any material legal proceedings. From time to time, we may be named as a defendant in legal actions or otherwise be subject to claims arising from our normal business activities. Any such actions, even those that lack merit, could result in the expenditure of significant financial and managerial resources. We believe that we have obtained adequate insurance coverage or rights to indemnification in connection with potential legal proceedings that may arise.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed under the heading “Risk Factors” in our Annual Report on Form 10-K/A for the year ended December 31, 2018 as filed with the SEC.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Share Repurchases

The following table presents the total number of shares of our common stock that we purchased during the first quarter of 2019, the average price paid per share, the number of shares that we purchased as part of our publicly announced repurchase program and the approximate dollar value of shares that still could be repurchased at the end of the applicable period.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program [(1)]	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program [(1)]
January 1 - 31, 2019	29,257	$85.35	29,257	$21,824,000
February 1 - 28, 2019	-	-	-	21,824,000
March 1 - 31, 2019	4,475	104.80	4,475	21,355,000
Total first quarter 2019	33,732	$87.93	33,732	$21,355,000

(1) Pursuant to a $50.0 million share repurchase program that was announced by our board of directors on November 2, 2017. Under the program, purchases may be made from time to time in the open market over two years.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Not Applicable.

26

Item 6. Exhibits

Number	Description
3.1	Certificate of Incorporation (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form S-3 (File No. 333-182097) filed with the Commission on September 13, 2012).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K (File No. 001-34702) filed with the Commission on October 12, 2017).
10.1	Non-Employee Director Compensation Summary as of May 14, 2019 (filed herewith).**
10.2	Form of Deferred Stock Unit Agreement under 2010 Equity Incentive Plan (filed herewith).**
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T (filed herewith).

** Indicates management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: April 26, 2019	SPS COMMERCE, INC.
	/s/ KIMBERLY K. NELSON Kimberly K. Nelson Executive Vice President and Chief Financial Officer
	(principal financial and accounting officer)

28