RSC Holdings Inc.
Form 10-K
January 26, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED: DECEMBER 31, 2011

-OR-

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File No. 001-33485

RSC Holdings Inc.

(Exact name of registrant as specified in its charter)

Delaware	**22-1669012**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
6929 E. Greenway Pkwy, Suite 200	
Scottsdale, Arizona	**85254**
(Address of principal executive offices)	**(zip code)**

Registrant s telephone number, including area code:

(480) 905-3300

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of Each Exchange on Which Registered**
Common Stock, no par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined under Rule 405 of the Securities Act. YES ¨ NO x

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	x	Accelerated filer	¨
Non accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) YES ¨ NO x

As of June 30, 2011, the last day of the registrant s most recently completed second fiscal quarter, the aggregate market value of the registrant s common stock held by non-affiliates was approximately $727.1 million (based on the closing price of RSC Holdings Inc. Common Stock of $11.96 per share on that date, as reported on the New York Stock Exchange and, for purposes of this computation only, the assumption that all of the registrant s directors and executive officers are affiliates).

As of January 20, 2012, there were 104,363,681 shares of RSC Holdings Inc. Common Stock outstanding.

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Introductory Note

Unless the context otherwise requires, in this Annual Report on Form 10-K, (i) we, us, our, and RSC Holdings means RSC Holdings Inc., (ii) RSC means RSC Equipment Rental, Inc. and RSC Equipment Rental of Canada, Ltd, which are our operating entities and indirect wholly-owned subsidiaries of RSC Holdings, and, when used in connection with disclosure relating to indebtedness incurred under the Old Senior ABL Revolving Facility and Second Lien Term Facility, or the New Senior ABL Revolving Facility and in connection with the 2014 Senior Unsecured Notes (the 2014 Notes), the 2017 Senior Secured Notes (the 2017 Notes), the 2019 Senior Unsecured Notes (the 2019 Notes) or the 2021 Senior Unsecured Notes (the 2021 Notes) (collectively the Notes), RSC Holdings III, LLC, (iii) Ripplewood means RSC Acquisition LLC and RSC Acquisition II LLC, (iv) Oak Hill means OHCP II RSC, LLC, OHCMP II RSC, LLC and OHCP II RSC COI, LLC, (v) the Sponsors means Ripplewood and Oak Hill, (vi) ACAB means Atlas Copco AB, (vii) ACA means Atlas Copco Airpower n.v., a wholly owned subsidiary of ACAB, (viii) ACF means Atlas Copco Finance S.à.r.l., a wholly owned subsidiary of ACAB, and (ix) Atlas means ACAB, ACA and ACF, except as otherwise set forth in this Annual Report on Form 10-K.

Cautionary Note for Forward-Looking Statements

All statements other than statements of historical facts included in this Annual Report on Form 10-K, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as may , plan , seek , will , should , expect , intend , estimate , anticipate , believe or continue or the negative thereof or var similar terminology.

Forward-looking statements include the statements in this Annual Report on Form 10-K regarding, among other things: management forecasts; efficiencies; cost savings and opportunities to increase productivity and profitability; income and margins; liquidity; anticipated growth; economies of scale; the economy; future economic performance; our ability to maintain liquidity during adverse economic cycles and unfavorable external events; our business strategy; future acquisitions and dispositions; litigation; potential and contingent liabilities; management s plans; taxes; and refinancing of existing debt.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from our expectations are set forth below and disclosed in Risk Factors in Part I, Item 1A and elsewhere in this Annual Report on Form 10-K. Factors that could cause actual results or outcomes to differ materially from those projected include, but are not limited to, the following:

- the effect of an economic downturn or other factors resulting in a decline in construction, non-construction maintenance, capital improvements and capital investment;

- intense rental rate price pressure from competitors, some of whom are heavily indebted and may significantly reduce their prices to generate cash to meet debt covenants; from contractor customers; some of whom are bidding contracts at cost or below to secure work for their remaining best employees; from industrial customers who generally are experiencing profitability shortfalls in the current economic climate and in return are asking all of their most significant suppliers for price reductions and cost reduction ideas;

- the rental industry s ability to continue to sell used equipment through both the retail and auction markets at prices sufficient to enable us to maintain orderly liquidation values that support our borrowing base to meet our minimum availability and to avoid covenant compliance requirements for leverage and fixed charge coverage contained in our New Senior ABL Revolving Facility;

- our ability to comply with our debt covenants;

- risks related to the credit markets willingness to continue to lend to borrowers with a B rating;

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- our ability to generate cash and/or incur additional indebtedness to finance equipment purchases;
- exposure to claims for personal injury, death and property damage resulting from the use of equipment rented or sold by us;
- the effect of changes in laws and regulations, including those relating to employment legislation, the environment and customer privacy, among others;
- fluctuations in both fuel and supply costs;
- heavy reliance on centralized information technology systems;
- claims that the software products and information systems on which we rely infringe on the intellectual property rights of others;
- litigation in respect of the merger with United Rentals, Inc. (URI);
- possibility that costs or difficulties related to the merger transactions will be greater than expected;
- the risk that the completed transaction does not occur for any reason; and
- the other factors described in Part I, Item 1A of this Annual Report on Form 10-K under the caption Risk Factors.

Any forward-looking statements made by us or on our behalf speak only as of the date they are made or as the date indicated, and we do not undertake any obligation to update forward-looking statements as a result of new information, future events or otherwise. You should carefully consider the factors discussed above in evaluating these forward-looking statements. For additional information or factors that could materially influence forward-looking statements included in this report, see the risk factors in Part I, Item 1A. under the caption Risk Factors in this Annual Report on Form 10-K.

Additional Note

In connection with the proposed transaction between URI and RSC Holdings, a preliminary version of the registration statement and joint proxy statement/prospectus was filed with the SEC by URI on January 17, 2012. The preliminary version is not yet final and will be amended. Neither this Annual Report on Form 10-K nor the preliminary registration statement and joint proxy statement/prospectus filed with the SEC is a substitute for the definitive version of the registration statement and joint proxy statement/prospectus or any other documents that URI or RSC Holdings may file with the SEC or send to its stockholders in connection with the proposed transaction. BEFORE MAKING ANY VOTING DECISION, INVESTORS AND SECURITY HOLDERS ARE URGED TO READ THE DEFINITIVE VERSION OF THE REGISTRATION STATEMENT, JOINT PROXY STATEMENT/PROSPECTUS AND ALL OTHER RELEVANT DOCUMENTS FILED OR THAT WILL BE FILED WITH THE SEC IN CONNECTION WITH THE PROPOSED TRANSACTION AS THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION.

You will be able to obtain a free copy of the joint proxy statement/prospectus, as well as other filings containing information about URI and RSC Holdings, at the SEC s website at http://www.sec.gov. You will also be able to obtain these documents, free of charge, when filed, by directing a request by mail or telephone to RSC Holdings, Attn: Investor Relations, 6929 E. Greenway Parkway, Suite 200, Scottsdale, AZ 85254, telephone: (480) 281-6956, or from our website, www.RSCrental.com.

RSC Holdings and its directors, executive officers and certain other members of management and employees may be deemed to be participants in the solicitation of proxies from the stockholders of RSC Holdings in connection with the proposed transaction. Information about the directors and executive officers of RSC Holdings and their ownership of RSC Holdings common stock is described in Part III, Item 12 of this Annual Report on Form 10-K under the caption Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters . Additional information regarding the interests of those persons and other persons who may be deemed participants in the proposed transaction may be obtained by reading the joint proxy statement/prospectus regarding the proposed transaction. You may obtain free copies of this document as described in the preceding paragraph.

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PART I

Item 1. Business

Our Company

Overview

We are one of the largest equipment rental providers in North America. We operate through an integrated network of 440 rental locations across ten regions in 43 U.S. states and three Canadian provinces and service customers primarily in the industrial or non-construction, and construction markets. For 2011, we generated 86.2% of our revenues from equipment rentals, and we derived the remaining 13.8% of our revenues from sales of used rental equipment, merchandise and other related items. We believe our focus on high margin rental revenues, active fleet management and superior customer service has enabled us to achieve attractive returns on capital employed over a business cycle.

We rent a broad selection of equipment, primarily to industrial or non-construction related companies, and construction companies, ranging from large equipment such as backhoes, forklifts, air compressors, scissor lifts, aerial work platform booms and skid-steer loaders to smaller items such as pumps, generators, welders and electric hand tools. We also sell used equipment, parts, merchandise and supplies for customers maintenance, repair and operations. As of December 31, 2011, our rental equipment fleet had an original equipment fleet cost of approximately $2.7 billion covering over 900 categories of equipment. We strive to differentiate our offerings through superior levels of equipment availability, reliability and service. The strength of our fleet lies in its condition. We actively manage the condition of our fleet in order to provide customers with well-maintained and reliable equipment. We believe our fleet is one of the best maintained among our key competitors, with 98% of our fleet current with its manufacturer s recommended preventive maintenance at December 31, 2011. Our disciplined fleet management process supports us in maintaining rental rate discipline and optimizing fleet utilization and capital expenditures. We employ a high degree of equipment sharing and mobility within regions to increase equipment utilization and adjust the fleet size in response to changes in customer demand. Integral to our equipment rental operations is the sale of used equipment and in addition, we sell merchandise complementary to our rental activities.

Organizational Overview

Prior to November 27, 2006, RSC Holdings was wholly owned by Atlas Copco AB (ACAB) and Atlas Copco Airpower n.v. (ACA), a wholly owned subsidiary of ACAB (together with ACAB, Atlas). On October 6, 2006, Atlas announced that it had entered into a recapitalization agreement pursuant to which Ripplewood Holdings L.L.C. (Ripplewood) and Oak Hill Capital Partners (Oak Hill and collectively with Ripplewood, the Sponsors) would acquire 85.5% of RSC Holdings (the Recapitalization). The Recapitalization closed on November 27, 2006. Prior to the closing of the Recapitalization, RSC Holdings formed RSC Holdings I, LLC, which is a direct wholly owned subsidiary of RSC Holdings; RSC Holdings II, LLC, which is a direct wholly owned subsidiary of RSC Holdings I, LLC; and RSC Holdings III, LLC, which is a direct wholly owned subsidiary of RSC Holdings II, LLC. RSC Equipment Rental, Inc. is a direct subsidiary of RSC Holdings III, LLC; and RSC Equipment Rental of Canada Ltd., is a direct subsidiary of RSC Equipment Rental, Inc. RSC is the operating entity of RSC Holdings.

RSC Holdings is the sole member of RSC Holdings I, LLC, which, in turn, is the sole member of RSC Holdings II, LLC, which, in turn, is the sole member of RSC Holdings III, LLC. RSC Holdings III, LLC is the parent of RSC. Because RSC Holdings III, LLC is a limited liability company that does not have a Board of Directors, its business and affairs are managed by the Board of Directors of RSC Holdings, its ultimate parent.

As of December 31, 2011 Oak Hill owned 33.4% of RSC Holdings issued and outstanding common stock.

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On December 15, 2011, RSC Holdings entered into a definitive merger agreement (the Merger Agreement) with URI pursuant to which RSC Holdings will be merged (the Merger) with and into URI, with URI continuing as the surviving corporation of the Merger. Upon completion of the Merger, each issued and outstanding share of RSC Holdings common stock (other than shares owned by RSC Holdings, URI or any of their direct or indirect wholly owned subsidiaries, in each case not held on behalf of third parties, and shares with respect to which appraisal rights are properly exercised and not withdrawn) will be converted into the right to receive (i) $10.80 in cash and (ii) 0.2783 of a share of URI common stock, in each case without interest. The board of directors of each of RSC Holdings and URI has unanimously approved the Merger and the Merger Agreement and has recommended that its stockholders vote in favor of the adoption of the Merger Agreement.

The Merger is expected to close by the end of the first half of 2012 and is subject to customary closing conditions, including approval of stockholders and necessary regulatory approvals.

Business Strategy

Drive profitable volume growth. Through our high quality fleet, large scale and national footprint and superior customer service, we intend to take advantage of the long-term opportunities for profitable growth primarily within the North American equipment rental market by:

continuing to drive the profitability of existing locations and pursuing same store growth;

investing in and maintaining our high quality fleet to meet local customer demands;

leveraging our reputation for superior customer service to increase our customer base;

increasing our market penetration by opening new locations in targeted markets to leverage existing infrastructure and customer relationships;

increasing our presence in complementary rental and service offerings to increase same store revenues, margins and return on investment;

aligning incentives for local management teams with our strategy; and

pursuing selected acquisitions in attractive markets, subject to economic conditions.

Prioritize profit margins, free cash flow generation and return on capital. We intend to manage our operations by continuing to:

focus on the higher margin rental business;

actively manage the quality, reliability and availability of our fleet and offer superior customer service to support our premium pricing strategy;

evaluate each new investment in fleet based on local demand and expected returns;

- deploy and allocate fleet among our operating regions based on pre-specified return thresholds;
- use our size and market presence to achieve economies of scale in capital investment;
- actively sell under-utilized fleet to balance supply with demand, thereby right-sizing the fleet;
- close locations with unfavorable long-term prospects; and
- focus on industrial or non-construction growth by actively investing in people, branch locations and service offerings.

Further enhance our industry leading customer service. We believe that our position as a leading provider of rental equipment is driven in large part by our superior customer service. Continuing to provide superior customer service and maintaining our reputation for such service will provide us an opportunity to further expand our customer base and increase our share of the fragmented North American equipment rental market.

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Business

Our business is focused on equipment rental, including sales of used rental equipment and the sale of merchandise that is related to the use of our rental equipment.

We offer for rent over 900 categories of equipment on a daily, weekly or monthly basis. The type of equipment that we offer ranges from large equipment such as backhoes, forklifts, air compressors, scissor lifts, aerial work platform booms and skid-steer loaders to smaller items such as pumps, generators, welders and electric hand tools.

We routinely sell used rental equipment and invest in new equipment to manage the size and composition of our fleet and to adjust to changes in demand for specific rental products. We realize what we believe to be attractive sales prices for our used equipment due to our rigorous preventive maintenance program. We sell used rental equipment primarily through our existing location network and, to a lesser extent through other means, including equipment auctions and brokers. As a convenience for our customers, we offer for sale a broad selection of contractor supplies, including safety equipment such as hard hats and goggles, consumables such as blades and gloves, tools such as ladders and shovels and certain other ancillary products. We also sell a small amount of new equipment.

Operations

We currently operate in two geographic divisions, the Gulf and Northern divisions, overseeing a total of ten operating regions. Each division is overseen by a divisional senior vice president and each region is headed by a regional vice president. Decisions regarding the acquisition and deployment of fleet are made by the executive management team, which includes the divisional senior vice presidents.

Our operating regions typically have six to seven districts headed by a district manager overseeing six to seven rental locations and each location is managed by a location manager. As of December 31, 2011 our Canadian region, which is part of the Northern Division, had four districts and 18 rental locations. In 2011, 2010 and 2009, 6.9%, 6.4% and 5.2%, respectively, of our revenue was derived from Canada. As of December 31, 2011 and 2010, 6.2% and 6.2% of our long-lived assets, and 4.8% and 5.1% of our total assets were located in Canada. See Note 20 to our consolidated financial statements for further business segment and geographic information.

Operating within guidelines established and overseen by our executive management team, regional and district personnel are able to make decisions based on the needs of their customers. Our executive management team conducts monthly operating reviews of regional performance and also holds formal meetings with representatives of each operating region throughout the year. These meetings encompass operational and financial reviews, leadership development and regional near-term strategy. Regional vice presidents, district managers and location managers are responsible for management and customer service in their respective areas and are directly responsible for the financial performance of their respective region, district and location, and their variable compensation is tied to the profitability of their area.

Customers

We have long and stable relationships with most of our customers, including the majority of our top 20 accounts. During 2011, we serviced approximately 202,000 customers, primarily in the industrial or non-construction, and construction markets. During 2011, no one customer accounted for more than 2% of our rental revenues, and our top 10 customers combined represented less than 10% of our rental revenues. We do not believe the loss of any one customer would have a material adverse effect on our business.

We have a diversified customer base consisting of two major end-markets: industrial or non-construction; and construction markets. Our customers represent a wide variety of industries, such as, petrochemical, mining, paper/pulp, food processing and construction. Further, construction is comprised of different segments, including: office, power, commercial, healthcare and educational construction. Serving a number of different industries enables us to reduce our dependence on a single or limited number of customers in the same business. Activity in the construction market tends to be susceptible to seasonal fluctuations in certain parts of the country, resulting in changes in demand for our rental equipment.

Construction customers vary in size from national and regional to local companies and private contractors and typically make use of the entire range of rental equipment and supplies that we offer. Construction projects vary in terms of length, type of equipment required and location requiring responsive and flexible services.

Rental services for industrial or non-construction customers can be grouped into the following activities:

- run and maintain, which relates to day to day maintenance;
- turnaround, which relates to major planned general overhaul of operations; and
- capital projects, which relate to smaller expansion or modification work.

In our experience, industrial or non-construction customers engage in long-term service contracts with trusted suppliers to meet their equipment requirements. In order to capitalize on this trend, we operate rental yards on-site at the facilities of some of our largest industrial or non-construction customers pursuant to one to five year agreements that generally may be cancelled by either party upon 30 days notice. Under these agreements, we typically agree to service all of our customers equipment rental needs, including products we do not typically rent. The purpose of our one to five year agreements is to provide a framework for the business relationship in the event future rental transactions occur. Specifically, these agreements establish, among other things, the term of the onsite rental yard, administrative responsibilities, equipment availability, pricing, jobsite conditions, invoicing, dispute resolution, and other responsibilities. The fact that we operate an onsite rental yard is not a guarantee that a customer will have a rental need. Revenue is recognized if and when a customer rents equipment from one of our onsite yards at which time a separate rental agreement is executed. Rental revenue, which accrues in accordance with the rates outlined in the service contract, is recognized over the applicable rental period. We have also developed a proprietary software application, Total Control®, which provides our industrial or non-construction customers with a single in-house software application that enables them to monitor and manage all their rental equipment. This software can be integrated into the customers enterprise resource planning system. Total Control® is a unique customer service tool that enables us to develop strong, long-term relationships with our larger customers. Our customers are not charged for the use of Total Control®, nor do we charge higher rates for rental equipment rented through Total Control®.

Customer Service. To ensure prompt response to customer needs, we operate a 24/7 in-house call center, which we believe gives us a competitive advantage by providing our customers full access to all our employees on call, enabling appropriate support at any time. Our in-house call center staff is highly trained and has access to our customer related databases providing clients with best-in-class service. We also pursue a number of initiatives to assess and enhance customer satisfaction. Using an independent third party, we contact approximately 20,000 of our customers annually to determine their overall satisfaction levels. We also use an independent third party to test the quality of our service levels by performing secret shop calls to evaluate effectiveness with customers, identify coaching opportunities and to evaluate courtesy and staff knowledge.

Industry Overview

Based on industry sources, we estimate the U.S. construction equipment rental industry had rental revenues of approximately $25 billion in 2011. This represents a compound annual growth rate of approximately 6.5% since 1990.

The industry s principal end-markets for rental equipment are industrial or non-construction and construction markets. While the construction industry has to date been the principal user of rental equipment,

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industrial or non-construction companies, utilities and others are increasingly using rental equipment for plant maintenance, turnaround projects and other operations. According to U.S. Department of Commerce data (which is preliminary and has not been adjusted for inflation), the value of non-residential construction put in place in the United States decreased 9% in 2009 compared to 2008, and decreased 15% in 2010 compared to 2009. For the eleven months ended November 30, 2011 the value of non-residential construction put in place in the United States decreased 3% compared to the eleven months ended November 30, 2010.

We believe that long-term industry growth, apart from reflecting general economic conditions and cyclicality is driven by end-user markets that increasingly recognize the many advantages of renting equipment rather than owning, including:

- avoiding the large capital investment required for equipment purchases;
- accessing a broad selection of equipment and selecting the equipment best suited for each particular job;
- reducing storage, maintenance and transportation costs; and
- accessing the latest technology without investing in new equipment.

Fleet

As of December 31, 2011, our rental fleet had an original equipment fleet cost of $2.7 billion covering over 900 categories of equipment, and in 2011, our rental revenues were $1,312.5 million. Rental terms for our equipment vary depending on the customer s needs, and the average rental term in 2011 was approximately 13 days. We believe that the size of our purchasing program and the relative importance of our business to our suppliers allow us to purchase fleet at favorable prices and on favorable payment terms. We believe that our highly disciplined approach to acquiring, deploying, sharing, maintaining and divesting our fleet represents a key competitive advantage. The following table provides a breakdown of our fleet in terms of original equipment fleet cost as of December 31, 2011.

Equipment Rental Fleet Breakdown

As of December 31, 2011	% of Total
Aerial work platform (AWP) booms	31.4
Fork lifts	21.5
Earth moving	15.3
AWP scissors	9.2
Trucks	5.9
Air compressors	4.1
Generators/Light towers	3.8
Compaction	2.1
Other	6.7

Fleet Management Process. We believe that our disciplined fleet management process, whereby new investments are evaluated on strict return guidelines and used equipment sales targets are set at a local level to right-size the fleet, supports optimal fleet utilization. Consistent with our decentralized operating structure, each region is responsible for the quality of its allocated fleet, providing timely fleet maintenance, fleet movement, sales of used equipment and fleet availability. This process is led by regional fleet directors who make investment/divestment decisions within strict return on investment guidelines. Local revenues are forecasted on a location-by-location basis. Regional vice presidents use this information to develop near term regional customer demand estimates and appropriately allocate investment requirements on the basis of targeted utilization and rental rates.

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The regional fleet process is overseen by our corporate fleet management, which is responsible for the overall allocation of the fleet among and between the regions. We evaluate all electronic investment requests by regional fleet directors and develop and enforce a ceiling for the fleet size for each region based on short-term local outlook, return and efficiency requirements and need at the time, and identify under-utilized equipment for sale or internal transfer to right-size the fleet at a local and company level.

Corporate fleet management will accept a new capital investment request only if such investment is deemed to achieve a pre-specified return threshold and if the request cannot be satisfied through internal fleet reallocation. Divestments or fleet transfers are evaluated when the fleet generates returns below the pre-specified threshold. If corporate fleet management cannot identify a need for a piece of equipment in any region, the equipment is targeted for sale. Our rigorous preventive maintenance program enables us to realize attractive sales prices for used rental equipment relative to the underlying environment. We sell used rental equipment through our existing location network and, to a lesser extent through other means, including equipment auctions and brokers.

We also continuously monitor the profitability of our equipment through our information management systems. Each piece of equipment is tracked and evaluated on a number of performance criteria, including time utilization rate, average billing rate, preventive maintenance, age and, most importantly, return on investment. We utilize this data to help guide the transfer of equipment to locations where the highest utilization rates, highest prices and best returns can be achieved. Pricing decisions are made at a local level to reflect current market conditions. Daily reports, which allow for review of agreements by customer or contract, enable local teams to make real time adjustments to market conditions and monitor developing trends.

We made proprietary improvements to our information management systems to integrate our maintenance and reservation management systems, which prioritize equipment repairs based on customer reservations and time in shop. The majority of major repairs are outsourced to enable us to focus on maintenance and parts replacement. We implemented a rigorous preventive maintenance program that increases reliability, decreases maintenance costs and improves fleet availability and the ultimate sales price we realize on the sale of used equipment. At December 31, 2011, 98% of our fleet was current on its manufacturer s recommended preventive maintenance.

Fleet Procurement. We believe that our size and focus on long-term supplier relationships enable us to purchase equipment directly from manufacturers at favorable prices and on favorable terms. We do not enter into long-term purchase agreements with equipment suppliers because we wish to preserve our ability to respond quickly and beneficially to changes in demand for rental equipment. To ensure security of supply, we do, however, maintain non-binding arrangements with our key suppliers and we communicate frequently with them so that they can plan their production capacity needs. Accordingly, original equipment manufacturers deliver equipment to our facilities based on our current needs in terms of quantity and timing. We have negotiated favorable payment terms with the majority of our equipment suppliers. We believe that our ability to purchase equipment on what we believe are favorable terms represents a key competitive advantage afforded to us by the scale of our operations.

Generally, we purchase rental equipment from two suppliers for each major category that we offer for rent. We believe that while selectively partnering with these existing suppliers, if needed, we could readily replace any of the suppliers if it were no longer advantageous to purchase equipment from them. Our major equipment suppliers include companies such as JLG, Skyjack, Bobcat and John Deere. In 2011, we purchased $616.2 million of new rental equipment compared to $327.1 million and $46.4 million in 2010 and 2009, respectively.

Fleet Condition. We believe our diverse equipment fleet is one of the best maintained and most reliable among our key competitors. At December 31, 2011, the average age of our fleet was 42 months, which improved from 44 months at December 31, 2010 due primarily to capital purchases. Through our fleet management process discussed above under *Fleet Management Process*, we actively manage the condition of our fleet to provide customers with well- maintained and reliable equipment and to support our premium pricing strategy.

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Sales and Marketing. We market our products and services through:

- a branch-based sales force operating out of our network of locations;
- local and national advertising efforts;
- our self-service, web-based solution: RSC Online®;
- specialized Business Development Managers focusing on regional and national customers; and
- specialized National Account Managers focusing on our largest strategic relationships.

Sales Force. We believe that our sales force is one of the industry s most productive and highly trained. As of December 31, 2011, we had an inside sales team performing a variety of functions such as handling inbound customer rental requests and servicing customers at each branch and outside sales employees servicing existing customers and soliciting new business on construction or industrial sites. Our sales force uses a customer relationship software application to target customers in their specific area, and we develop customized marketing programs for use by our sales force by analyzing each customer group for profitability, buying behavior and product selection. In 2010, we converted our customer relationship management system from a proprietary platform to Salesforce.com. All members of our sales force are required to attend in-house training sessions to develop product and application knowledge, sales techniques and financial acumen. Our sales force is supported by regional sales and marketing managers, district sales managers and corporate marketing and sales departments.

RSC Online®. We provide our customers with a self-service, web-based solution, RSC Online®. Our customers can reserve equipment online, review reports, use our report writer tool to create customized reports, terminate rental equipment reservations, schedule pick-ups and make electronic payments 24 hours a day, 7 days a week. In addition, we maintain a home page on the Internet (www.rscrental.com) that includes a description of our products and services, our geographic locations and our online catalogue of used rental equipment for sale, as well as live 24/7 click to chat support.

Information Systems

We operate a highly customized rental information management system through which key operational and financial information is made available on a daily basis. Our management team uses this information to monitor current business activities closely, looking at customer trends and proactively managing changes in the marketplace. Our enterprise resource management system is comprised of third-party licensed software and a number of proprietary enhancements covering, among others, financial performance, fleet utilization, service, maintenance and pricing. The system fully integrates all location operations such as rentals, sales, service and cash management, with the corporate activities, including finance, fixed asset and inventory management. All rental transactions are processed real-time through a centralized server and the system can be accessed by employees at the point of sale to determine equipment availability, pricing and other relevant customer specific information. Primary business servers are outsourced including the provision of a disaster recovery system.

Members of our management can access all of these systems and databases throughout the day at all of our locations or remotely through a secure key to analyze items such as:

- fleet utilization and return on investment by individual asset, equipment category, location, district or region;
- pricing and discounting trends by location, district, region, salesperson, equipment category or customer;

revenue trends by location, district, region, salesperson, equipment category or customer; and

financial results and performance of locations, districts, regions and the overall company.

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We believe that our use of information technology is a key component in our successful performance and that continued investment in this area will help us maintain and improve upon our customer satisfaction, responsiveness and flexibility.

Intellectual Property

We have registered the marks RSC and RSC Equipment Rental and certain other trademarks in the United States and Canada. We have not registered all of the trademarks we own and use in the business. Generally, registered trademarks have perpetual life, provided that the trademarks are renewed on a timely basis and continue to be used properly as trademarks.

Competition

The equipment rental industry is highly competitive and highly fragmented, with a few companies operating on a national scale and a large number of companies operating on a regional or local scale. We are one of the principal national-scale industry participants in the United States and Canada; the other national-scale industry participants being URI, Hertz Equipment Rental Corporation and Sunbelt Rentals. Certain of our key regional competitors are Neff Rental, Inc., NES, Ahern Rentals, Inc. and Sunstate Equipment Co. A number of individual Caterpillar dealers also participate in the equipment rental market in the United States and Canada.

Competition in the equipment rental industry is intense, and is defined by equipment availability, reliability, service and price. Our competitors may seek to compete aggressively on the basis of pricing or fleet availability. To the extent that we choose to match our competitors downward pricing, it could have a material adverse impact on our results of operations. To the extent that we choose not to match or remain within a reasonable competitive distance from our competitors pricing, it could also have an adverse impact on our results of operations, as we may lose rental volume.

Business Environment and Outlook

Our revenues and operating results are driven in large part by activities in the industrial or non-construction market and the construction market.

The industrial or non-construction market generated approximately 60% of our rental revenues during the year ended December 31, 2011, while the construction market generated approximately 40% of our rental revenues. During 2009 both the industrial or non-construction and the construction market had weakened, resulting in a decrease in the demand for our rental equipment and downward pressure on our rental rates. During the second quarter of 2010 and continuing throughout the remainder of 2010, market conditions improved. This translated into strengthening demand for our rental equipment which continued into 2011, resulting in increased fleet on rent of 18.7% at December 31, 2011 as compared to December 31, 2010. The improvement in fleet on rent was achieved through increased utilization in 2011, which was 68.8%, 63.7% and 57.6% for the three years ending December 31, 2011, 2010 and 2009, respectively.

Although economic conditions in our underlying end markets remained relatively unchanged in 2011, we experienced increased demand for rental equipment. We believe that the increased demand in excess of the improvements in our end markets was generated by our customers increased willingness to rent rather than purchase equipment. We responded to this increase in demand by investing $616.2 million in rental fleet and improving utilization to 68.8% for the year ended December 31, 2011 or 510 basis points from 63.7% for the year ended December 31, 2010. Rental rates increased 4.9% in the year ended December 31, 2011.

We expect that the demand for rental equipment will continue to outpace our underlying end markets in the first quarter of 2012. We also expect fleet on rent, utilization and rental revenues to continue to compare favorably to the prior year during the first quarter of 2012. Rental rates are directly related to rental demand and we expect positive growth during the first quarter of 2012 over those rates achieved in the first quarter of 2011.

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Employees

As of December 31, 2011, we had 4,721 employees. Employee benefits in effect include group life insurance, medical and dental insurance and a defined contribution benefit plan. Labor contracts covering the terms of employment of approximately 182 of our employees are presently in effect under 16 collective bargaining agreements with local unions relating to 31 separate rental locations in 15 U.S. states. We may be unable to negotiate new labor contracts on terms advantageous to us or without labor interruptions. We have had no material work stoppage as a result of labor problems during the last nine years. We believe our labor relations to be good.

Regulatory Matters

Environmental, Health and Safety Matters

Our operations are subject to a variety of federal, state, local and foreign environmental, health and safety laws and regulations. These laws regulate releases of petroleum products and other hazardous substances into the environment as well as storage, treatment, transport and disposal of wastes, wastewater, storm water and air quality and the remediation of soil and groundwater contamination. These laws also regulate our ownership and operation of tanks used for the storage of petroleum products and other regulated substances.

We have made, and will continue to make, expenditures to comply with environmental laws and regulations, including, among others, expenditures for the investigation and cleanup of contamination at or emanating from currently and formerly owned and leased properties, as well as contamination at other locations at which our wastes have reportedly been identified. Some of these laws impose strict and in certain circumstances joint and several liability on current and former owners or operators of contaminated sites for costs of investigation and remediation. We cannot assure you that compliance with existing or future environmental, health and safety requirements will not require material expenditures by us or otherwise harm our consolidated financial position, profitability or cash flow.

We have two facilities that are in various stages of environmental remediation. Our activity primarily relates to investigating and remediating soil and groundwater contamination at these facilities, which contamination may have been caused by historical operations (including operations conducted prior to our involvement at a site) or releases of regulated materials from underground storage tanks or other sources.

We rely heavily on outside environmental engineering and consulting firms to assist us in complying with environmental laws. While our environmental, health and safety compliance costs are not expected to have a material impact on our financial position, we incur costs to purchase and maintain wash racks and storage tanks and to minimize any unexpected releases of regulated materials from such sources.

Transportation, Delivery and Sales Fleet

We lease vehicles for transportation and delivery of rental equipment and vehicles used by our sales force under capital leases with leases typically ranging from 50 to 96 months. Our delivery fleet includes tractor trailers, delivery trucks and service vehicles. The vehicles used by our sales force are primarily pickup trucks. Capital lease obligations amounted to $92.2 million and $77.8 million at December 31, 2011 and 2010, respectively, and we had approximately 3,862 and 3,600 units leased at December 31, 2011 and 2010, respectively.

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Management

Set forth below are the names, ages and positions of our executive officers as of January 26, 2012.

Name	Age	Position
Erik Olsson	49	President, Chief Executive Officer and Director
Patricia Chiodo	46	Senior Vice President and Chief Financial Officer
Juan Corsillo	45	Senior Vice President Sales, Marketing and Corporate Operations
Kevin Groman	41	Senior Vice President, General Counsel and Corporate Secretary
Phillip Hobson	44	Senior Vice President, Operations
Mark Krivoruchka	57	Senior Vice President, Human Resources
David Ledlow	52	Senior Vice President, Operations

Erik Olsson has served as President, Chief Executive Officer and a Director of RSC since 2006. Mr. Olsson joined RSC in 2001 as Chief Financial Officer and in 2005 became