

# ESSEX RENTAL CORP.

## FORM 10-Q (Quarterly Report)

Filed 07/30/10 for the Period Ending 06/30/10

Address	461 FIFTH AVENUE, 25THFLOOR, NEW YORK, NY 10017
Telephone	212-644-3450
CIK	0001373988
Symbol	ESSX
SIC Code	7350 - Miscellaneous Equipment Rental And Leasing
Industry	Rental & Leasing
Sector	Services
Fiscal Year	12/31

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-34601

**Essex Rental Corp.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State of Other Jurisdiction of Incorporation or Organization)

**20-5415048**

(I.R.S. Employer Identification No.)

**1110 Lake Cook Road, Suite 220**

**Buffalo Grove, Illinois**

(Address of Principal Executive Offices)

**60089**

(ZIP Code)

**847-215-6500**

(Registrant's Telephone Number, Including Area Code)

**None**

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Sections 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  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  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

17,155,496 shares of common stock, par value \$.0001 per share, were outstanding as of the close of business on July 31, 2010.

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains statements which are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include statements regarding the intent and belief or current expectations of Essex and its management team and may be identified by the use of words like "anticipate", "believe", "estimate", "expect", "intend", "may", "plan", "will", "should", "seek", the negative of these terms or other comparable terminology. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements. Important factors that could cause actual results to differ materially from Essex's expectations include, without limitation, the continued ability of Essex to successfully execute its business plan, the possibility of a change in demand for the products and services that Essex provides (through its subsidiary, Essex Crane), intense competition which may require us to lower prices or offer more favorable terms of sale, our reliance on third party suppliers, our indebtedness which could limit our operational and financial flexibility, global economic factors including interest rates, general economic conditions, geopolitical events and regulatory changes, our dependence on our management team and key personnel, as well as other relevant risks detailed in our Annual Report on Form 10-K and subsequent periodic reports filed with the Securities and Exchange Commission and available on our website, [www.essexcrane.com](http://www.essexcrane.com). The factors listed here are not exhaustive. Many of these uncertainties and risks are difficult to predict and beyond management's control. Forward-looking statements are not guarantees of future performance, results or events. Essex assumes no obligation to update or supplement forward-looking information in this Form 10-Q whether to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results or financial conditions, or otherwise.

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**PART I. FINANCIAL INFORMATION**  
**Item 1. Financial Statements**

**ESSEX RENTAL CORP.**  
**CONSOLIDATED BALANCE SHEETS**

	June 30, 2010	December 31, 2009
	(Unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 502,148	\$ 199,508
Accounts receivable, net of allowances for doubtful accounts and credit memos of \$1,231,000 and \$1,545,000, respectively	4,806,697	4,973,995
Other receivables	3,504,157	3,791,845
Deferred tax assets	1,657,493	1,724,621
Prepaid expenses and other assets	640,629	410,198
<b>TOTAL CURRENT ASSETS</b>	<b>11,111,124</b>	<b>11,100,167</b>
Rental equipment, net	256,229,690	260,767,678
Property and equipment, net	6,579,085	6,981,660
Spare parts inventory, net	3,671,235	3,556,236
Restricted cash deposits	5,226,400	-
Identifiable finite lived intangibles, net	1,590,268	2,160,239
Loan acquisition costs, net	1,649,719	1,897,177
<b>TOTAL ASSETS</b>	<b>\$ 286,057,521</b>	<b>\$ 286,463,157</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,539,132	\$ 1,790,683
Accrued employee compensation and benefits	707,417	679,078
Accrued taxes	5,343,358	5,663,263
Accrued interest	310,425	303,186
Accrued other expenses	877,323	739,639
Unearned rental revenue	951,250	793,797
Short-term debt obligations	7,214,400	5,170,614
Current portion of capital lease obligation	6,489	6,269
<b>TOTAL CURRENT LIABILITIES</b>	<b>16,949,794</b>	<b>15,146,529</b>
<b>LONG-TERM LIABILITIES</b>		
Revolving credit facility	134,561,795	131,919,701
Deferred tax liabilities	59,604,059	62,935,535
Interest rate swap	4,049,670	2,306,294
Capital lease obligation	13,767	17,067
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>198,229,291</b>	<b>197,178,597</b>
<b>TOTAL LIABILITIES</b>	<b>215,179,085</b>	<b>212,325,126</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$.0001 par value, Authorized 1,000,000 shares, none issued	-	-
Common stock, \$.0001 par value, Authorized 40,000,000 shares; issued and outstanding 17,154,846 shares at June 30, 2010 and 14,124,563 shares at December 31, 2009	1,715	1,412
Paid in capital	86,626,378	84,589,119
Accumulated deficit	(13,238,861)	(9,022,597)
Accumulated other comprehensive loss, net of tax	(2,510,796)	(1,429,903)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>70,878,436</b>	<b>74,138,031</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 286,057,521</b>	<b>\$ 286,463,157</b>



**ESSEX RENTAL CORP.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009**  
**(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>REVENUES</b>				
Equipment rentals	\$ 5,438,566	\$ 8,859,104	\$ 10,569,068	\$ 21,079,466
Used rental equipment sales	1,782,538	2,664,782	2,792,919	4,684,853
Transportation	969,109	1,515,115	2,008,167	2,907,790
Equipment repairs and maintenance	855,933	1,494,242	1,983,301	3,209,281
<b>TOTAL REVENUES</b>	<b>9,046,146</b>	<b>14,533,243</b>	<b>17,353,455</b>	<b>31,881,390</b>
<b>COST OF REVENUES</b>				
Salaries, payroll taxes and benefits	1,296,685	1,502,691	2,649,916	3,202,102
Depreciation	2,901,722	2,787,032	5,754,125	5,555,237
Net book value of rental equipment sold	1,345,313	2,354,608	2,198,164	4,076,843
Transportation	934,387	1,065,912	1,795,942	2,114,376
Equipment repairs and maintenance	1,072,490	1,092,551	1,960,280	2,475,727
Yard operating expenses	341,239	349,378	649,476	764,794
<b>TOTAL COST OF REVENUES</b>	<b>7,891,836</b>	<b>9,152,172</b>	<b>15,007,903</b>	<b>18,189,079</b>
<b>GROSS PROFIT</b>	<b>1,154,310</b>	<b>5,381,071</b>	<b>2,345,552</b>	<b>13,692,311</b>
Selling, general and administrative expenses	2,628,330	2,728,168	5,128,427	5,833,898
Other depreciation and amortization	220,380	199,481	412,066	409,859
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>(1,694,400)</b>	<b>2,453,422</b>	<b>(3,194,941)</b>	<b>7,448,554</b>
<b>OTHER INCOME (EXPENSES)</b>				
Other income	2,946	166	3,051	199
Interest expense	(1,658,186)	(1,674,283)	(3,277,907)	(3,354,002)
<b>TOTAL OTHER INCOME (EXPENSES)</b>	<b>(1,655,240)</b>	<b>(1,674,117)</b>	<b>(3,274,856)</b>	<b>(3,353,803)</b>
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>(3,349,640)</b>	<b>779,305</b>	<b>(6,469,797)</b>	<b>4,094,751</b>
<b>PROVISION (BENEFIT) FOR INCOME TAXES</b>	<b>(1,121,115)</b>	<b>307,224</b>	<b>(2,253,533)</b>	<b>1,572,647</b>
<b>NET INCOME (LOSS)</b>	<b>\$ (2,228,525)</b>	<b>\$ 472,081</b>	<b>\$ (4,216,264)</b>	<b>\$ 2,522,104</b>
<b>Weighted average shares outstanding:</b>				
Basic	14,535,982	14,108,186	14,332,142	14,108,143
Diluted	14,535,982	16,671,916	14,332,142	14,812,624
<b>Earnings (loss) per share:</b>				
Basic	\$ (0.15)	\$ 0.03	\$ (0.29)	\$ 0.18
Diluted	\$ (0.15)	\$ 0.03	\$ (0.29)	\$ 0.17

The accompanying notes are an integral part of these financial statements

**ESSEX RENTAL CORP.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**SIX MONTHS ENDED JUNE 30, 2010 AND 2009**  
(Unaudited)

	<u>Six Months Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (4,216,264)	\$ 2,522,104
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	5,894,837	5,614,687
Amortization of loan acquisition costs and other intangibles	518,811	597,868
Gain on sale of equipment	(594,755)	(608,010)
Deferred income taxes	(2,303,247)	1,333,228
Share based compensation expense	534,487	244,961
Changes in operating assets and liabilities:		
Accounts receivable, net	167,298	4,827,981
Other receivables	180,646	230,534
Prepaid expenses and other assets	(230,431)	(190,379)
Spare parts inventory	(114,999)	(320,939)
Accounts payable and accrued expenses	(398,194)	(2,832,994)
Unearned rental revenue	157,453	(1,047,649)
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<b>(404,358)</b>	<b>10,371,392</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of rental equipment	(138,350)	(12,183,388)
Purchases of property and equipment	(452,475)	(189,579)
Accounts receivable from rental equipment sales	107,042	-
Proceeds from sale of rental equipment	2,792,919	4,684,853
Increase in restricted cash deposits	(5,226,400)	-
<b>NET CASH (USED IN) INVESTING ACTIVITIES</b>	<b>(2,917,264)</b>	<b>(7,688,114)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from revolving credit facility	21,070,819	34,652,298
Payments on revolving credit facility	(18,428,725)	(37,312,130)
Payments on short-term debt obligations	(517,061)	-
Payments on capital lease obligation	(3,846)	(749)
Proceeds from the exercise of warrants	2,356,336	-
Payments to repurchase warrants	(853,261)	(25,396)
Payments for debt issuance costs	-	(14,651)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>3,624,262</b>	<b>(2,700,628)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>302,640</b>	<b>(17,350)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>199,508</b>	<b>139,000</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 502,148</b>	<b>\$ 121,650</b>
<b>SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING/FINANCING ACTIVITIES</b>		
Equipment obtained through capital lease	\$ 766	\$ 27,060
Equipment purchased directly through short-term debt obligation	\$ 2,560,847	\$ -
Unrealized loss on derivative instruments, net of tax	\$ 1,080,893	\$ 1,020,272
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for interest, swaps and debt issuance costs	\$ 3,023,210	\$ 3,252,519
Cash (received) paid for income taxes, net of refunds	\$ 53,972	\$ 362,615

The accompanying notes are an integral part of these financial statements



**ESSEX RENTAL CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Business and Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of Essex Rental Corp. ("Essex Rental"), formerly known as Hyde Park Acquisition Corp. ("Hyde Park"), Essex Holdings, LLC ("Holdings") and its wholly owned subsidiaries, Essex Crane Rental Corp. ("Essex Crane") and Essex Finance Corp. ("Essex Finance"), (collectively the "Company" or "Successor"). All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company, through its subsidiary, Essex Crane, is engaged primarily in renting lattice boom crawler cranes and attachments to the construction industry mainly throughout the United States of America and Canada for use in building and maintaining power plants, refineries, bridge and road construction, alternative energy, water treatment facilities and other industrial, commercial and infrastructure related projects.

In August 2009, the Company formed a new subsidiary, Essex Finance Corp., to facilitate the acquisition of rental equipment.

The accompanying unaudited financial statements of Essex Rental Corp. include all adjustments (consisting of normal recurring adjustments) which management considers necessary for the fair presentation of the Company's operating results, financial position and cash flows as of and for all periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted from these unaudited financial statements in accordance with applicable rules.

The results of operations for the three and six month periods ended June 30, 2010 are not necessarily indicative of the results to be expected for the full year ended December 31, 2010. For further information, please refer to the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

***Essex Holdings, LLC - Predecessor***

Essex Holdings, LLC filed a certificate of formation in Delaware on May 4, 2000. Essex Holdings, LLC is a holding company whose only activity related to its investment in Essex Crane Rental Corp. (collectively the "Predecessor").

Essex Crane was incorporated in Delaware on April 7, 2000 as Essex Holdings, Inc. and in June 2000 changed its legal name to Essex Crane Rental Corp.

In May 2000, Essex Holdings, LLC entered into an Asset Purchase Agreement and acquired substantially all the assets, liabilities and operations of Essex Crane Rental Corp. This acquisition was accounted for using the purchase method of accounting, and accordingly, the purchase price was allocated to the assets purchased and the liabilities assumed based upon the fair values at the date of acquisition. The fair value of net assets acquired exceeded the purchase price. The excess of the net fair values of assets acquired and liabilities assumed over the purchase price was recorded as a pro-rata reduction to the fair value of long term assets (rental equipment, property and equipment and spare parts inventory).

***Acquisition of Predecessor***

In accordance with the purchase agreement (the "Purchase Agreement") entered into on March 6, 2008, and subsequently amended on May 9, 2008 and August 14, 2008, among the Company, Essex Crane, the members of Holdings and KCP Services LLC (the "Seller Representative"), on October 31, 2008 the Company acquired Holdings through the acquisition of all of the membership interests of Holdings other than membership interests which were retained by members of Holding's senior management, each of whom owned membership interests of Holdings prior to the completion of the acquisition, and whom the Company sometimes refer to collectively as the management members of Holdings or Essex Crane's senior management.

**ESSEX RENTAL CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

The ownership interests in the Predecessor that were retained by the management members (the “Retained Interests”), which consist of 632,911 Class A Units of Holdings, the parent company of Essex Crane and a subsidiary of Essex Rental, have been treated as effectively converted as they are only exchangeable for an aggregate of 632,911 shares of the Company’s common stock, entitle the holder to receive distributions on an “as exchanged” basis if Essex Rental pays a dividend to its common stockholders, are not transferable (subject to limited exceptions for estate planning purposes) and the Retained Interests are not mandatorily redeemable. As provided in the Amended and Restated Limited Liability Company Agreement of Holdings, dated October 31, 2008, among the Company and the management members of Holdings, the Retained Interests do not carry any voting rights but are entitled to distributions from Holdings if the Company pays a dividend to its common stockholders, in which case a distribution on account of the Retained Interests will be made on an “as exchanged” basis. Holders of the Retained Interests have agreed, subject to certain exceptions, not to sell their shares of the Company’s common stock (upon exchange of such Retained Interests in Holdings), for a period of two years following completion of the acquisition. The Company has granted certain registration rights to the existing members of Holdings with respect to the shares of the Company’s common stock issuable upon exchange of the Retained Interests pursuant to a Registration Rights Agreement entered into by the Company and the holders of the Retained Interests contemporaneously with the closing of the acquisition of Essex.

The fair value of the Retained Interests accepted by Essex Crane’s officers in lieu of cash was based on the enterprise value for Holdings ascribed by the total purchase price paid in the acquisition. The number of shares of the Company’s common stock into which the Retained Interests could be converted was based on the estimated per share amount of cash in trust as of the acquisition closing date and approximated the per share common stock price on the acquisition agreement date.

Essex Rental paid a gross purchase price of \$225,268,657 excluding liabilities except assumed debt of which \$73,146,539 was paid in cash to sellers; \$7,492,225 funded the General Escrow Agreement and Compliance Escrow Agreement and \$8,810,990 was paid for transaction and other costs of the acquisition. Also, the purchase price included the fair value of the Retained Interests of existing management of \$5,000,000. Lastly, the purchase price included common stock with a fair value (based on the closing price of Essex Rental Corp. stock on the acquisition date) of \$923,734 for transaction related services and assumed debt of \$129,895,169.

The Company used \$82,118,675 of the proceeds of its initial public offering held in its trust account as of the closing date, as well as \$9,298,594 advanced under the Essex Crane amended credit facility, to pay the net purchase price in the acquisition.

The purchase price paid by Essex Rental consisted of the following:

Cash paid to Sellers	\$ 73,146,539
Cash paid into escrow	7,492,225
Cash paid for seller transaction and other costs	3,763,346
Cash paid for buyer transaction costs	<u>5,047,644</u>
Total cash paid	89,449,754
Essex Rental common stock issued for transaction costs (132,911 shares) (1)	923,734
Reservation of 632,911 shares of Essex Rental common stock for sellers' conversion of Retained Interest in Holdings (2)	5,000,000
Essex Crane debt assumed at closing	<u>129,895,169</u>
Total purchase price paid for net assets acquired	<u><u>\$225,268,657</u></u>

(1) The common stock was valued at \$6.95 per share, which approximates the quoted market price of the common stock on the date the acquisition closed.

(2) The common stock was valued at \$7.90 per share, which approximates the quoted market price of the common stock at the time the acquisition was agreed.

**ESSEX RENTAL CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

The fair value of the assets acquired and liabilities assumed arising from the acquisition as of October 31, 2008 were as follows:

<i>Assets Acquired:</i>	
Cash	\$ 1,191,660
Accounts receivable	10,701,304
Other current assets	4,964,670
Rental equipment	256,086,550
Property and equipment	8,095,892
Spare parts inventory	3,064,029
Goodwill	23,895,733
Other intangible assets	3,640,000
Other assets	<u>2,429,403</u>
Total Assets Acquired	314,069,241
<i>Liabilities Assumed:</i>	
Accounts payable and accrued liabilities	13,848,973
Deferred tax liabilities	<u>74,951,611</u>
Total Liabilities Assumed	88,800,584
Net Assets Acquired	<u>\$225,268,657</u>

The methodology in allocating the final adjusted purchase price of Holdings of \$225.3 million, including related includable transaction expenses, to the assets acquired and liabilities assumed is described below as follows:

- The book value of cash, accounts receivable, other current assets, accounts payable and accrued liabilities were determined to approximate their fair value due to their short term nature;
- An experienced and qualified third party assisted in the valuation of the Company's rental equipment and property and equipment based in part on assumptions provided by management;
- An experienced and qualified third party assisted in the valuation of intangible assets including customer relationship intangible and trademark based in part on assumptions provided by management; and
- The remaining excess purchase price paid over the net assets acquired, which included transaction costs incurred, was recorded as goodwill.

## 2. Significant Accounting Policies

Please refer to note 2 of the notes to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2009 for a description of our significant accounting policies except for revenue recognition, which is described below.

### *Revenue Recognition*

The Company recognizes revenue, including multiple element arrangements, in accordance with the provisions of applicable accounting guidance. We generate revenue from Essex Crane's rental of cranes and related equipment and other services such as crane and equipment transportation and repairs and maintenance. In many instances, the Company provides some of the above services under the terms of a single customer Equipment Rental Agreement.

Revenue arrangements with multiple elements are divided into separate units of accounting based on vendor-specific objective evidence if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific objective evidence nor third-party evidence is available. The Company is able to establish vendor specific objective evidence of selling price related to rental revenues after analysis of rental agreements absent any additional services offered by the Company. The Company uses the estimated selling price for allocation of consideration to transportation services based on the costs associated with providing the services in addition to the other supply and demand factors within specific sub-markets. The estimated selling prices of the individual deliverables are not materially different than the terms of the Equipment Rental Agreements.

Revenue from equipment rentals are billed monthly in advance and recognized as earned, on a straight line basis over the rental period specified in the associated equipment rental agreement. Rental contract terms span several months or longer. Because the term of the contracts can extend across financial reporting periods, when rentals are billed in advance, we defer recognition of revenue and record unearned rental

revenue at the end of reporting periods so that rental revenue is included in the appropriate period. Repair service revenue is recognized when the service is provided. Transportation revenue from rental equipment delivery service is recognized for the drop off of rental equipment on the delivery date and is recognized for pick-up when the equipment is returned to the Essex Crane service center, storage yard or next customer location. New and used rental equipment sales are recognized upon acceptance by the customer and the execution of a definitive sales agreement stipulating the date risk ownership is transferred.

These policies are directly related to our cash flow and earnings. There are estimates required in recording certain repair and maintenance revenues and also in recording any allowances for doubtful accounts. The estimates have historically been accurate in all material respects and we do not anticipate any material changes to our current estimates in these areas.

#### *Use of Estimates*

The preparation of these financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could materially differ from those estimates. Significant estimates include the allowance for doubtful accounts and credit memos, spare parts inventory obsolescence reserve, useful lives for rental equipment and property and equipment, deferred income taxes, personal property tax receivable accrual, loss contingencies and the fair value of interest rate swaps and other financial instruments.

**ESSEX RENTAL CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

***Segment Reporting***

The Company has determined that although it has several distinct revenue streams including equipment rental and transportation, used equipment sales, and repairs and maintenance, it has only one reportable segment. This determination was based upon how management allocates its resources and assesses performance.

***Reclassification***

The Company changed its presentation of revenues and related costs associated with insurance recoveries for repair of damage to equipment from accidents or natural disasters while on rent within the Statement of Operations to report these revenues and costs of revenues gross within continuing operations to better reflect the nature of the transactions for all periods presented and reflecting the terms within the rental agreements. Insurance proceeds are now included in equipment repairs and maintenance revenues and the related costs are included in equipment repairs and maintenance cost of revenues on the accompanying consolidated statements of operations. It had been previously been presented on a net basis within Other Income (Expenses).

***Recently Issued and Adopted Accounting Pronouncements***

In April 2009, the FASB issued a pronouncement that provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. In addition, the pronouncement amends previous guidance to require that a reporting entity disclose in interim and annual periods the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period. The Company adopted the pronouncement as required during the quarter ended June 30, 2009. The adoption of this pronouncement resulted in additional disclosures in Note 6.

In April 2009, the FASB issued additional guidance which expands to interim periods the fair value disclosures required for financial instruments. It also requires entities to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments in financial statements on an interim basis and to highlight any changes in the methods and significant assumptions from prior periods. The Company adopted this guidance during the quarter ended June 30, 2009, which was applied prospectively, resulted in additional disclosures contained in Note 6.

In May 2009, the FASB issued a standard related to subsequent events that is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, this standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The standard was effective for fiscal years and interim periods ended after June 15, 2009 and was applied prospectively. The Company adopted the standard during the quarter ended June 30, 2009.

In February 2010, the FASB issued a standard with amendments to the accounting guidance related to subsequent events. The amendments remove the requirements for an SEC filer to disclose a date, in both issued and revised financial statements, through which subsequent events have been reviewed. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. This standard is effective for interim or annual financial periods ending after June 15, 2010 and the Company adopted this new standard during the quarter ended June 30, 2010 which did not have a material effect on the Company's consolidated financial statements.

In June 2009, the FASB issued a standard that amends the GAAP hierarchy. On July 1, 2009 the FASB launched FASB's new Codification entitled *The FASB Accounting Standards Codification* which will supersede all existing non-SEC accounting and reporting standards. The Codification is effective for fiscal years and interim periods ended after September 15, 2009 and had no effect on our unaudited consolidated financial statements upon adoption other than current references to GAAP which were replaced with references to the applicable codification paragraphs or described in plain English.

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In October 2009, the FASB issued accounting guidance that provides application guidance on whether multiple deliverables exist, how the deliverables should be separated and how the consideration should be allocated to one or more units of accounting. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence, if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific or third-party evidence is available. The Company would be required to apply this guidance prospectively for revenue arrangements entered into or materially modified after January 1, 2011; however, as earlier application is permitted, the Company decided to apply this guidance retrospectively for all prior periods. The application of the new guidance had no impact on the Company's units of accounting, the allocation of arrangement consideration, the pattern and timing of revenue recognition or the consolidated financial statements.

In January 2010, the FASB issued authoritative guidance that expands the required disclosures about fair value measurements. This guidance provides for new disclosures requiring the Company to (i) disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers and (ii) present separately information about purchases, sales, issuances and settlements in the reconciliation of Level 3 fair value measurements. This guidance also provides clarification of existing disclosures requiring the Company to (i) determine each class of assets and liabilities based on the nature and risks of the investments rather than by major security type and (ii) for each class of assets and liabilities, disclose the valuation techniques and inputs used to measure fair value for both Level 2 and Level 3 fair value measurements. This guidance was effective on January 1, 2010, except for the presentation of purchases, sales, issuances and settlements in the reconciliation of Level 3 fair value measurements, which will be effective on January 1, 2011. This guidance has not and is not expected to have a material impact on the Company's consolidated financial statements.

**3. Intangible Assets**

A customer relationship intangible and a trademark intangible were recorded at fair value associated with the acquisition of Holdings on October 31, 2008. The following table presents the gross carrying amount, accumulated amortization and net carrying amount of the Company's other identifiable intangible assets at June 30, 2010:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Other identifiable intangible assets:			
Customer relationship intangible	\$1,307,192	\$ (520,963)	\$ 786,229
Trademark intangible	1,336,591	(532,552)	804,039
	<u>\$2,643,783</u>	<u>\$ (1,053,515)</u>	<u>\$1,590,268</u>

The following table presents the gross carrying amount, accumulated amortization and net carrying amount of the Company's other identifiable intangible assets at December 31, 2009:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Other identifiable intangible assets:			
Customer relationship intangible	\$1,455,032	\$ (386,783)	\$1,068,249
Trademark intangible	1,487,369	(395,379)	1,091,990
	<u>\$2,942,401</u>	<u>\$ (782,162)</u>	<u>\$2,160,239</u>

**ESSEX RENTAL CORP.**  
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The gross carrying amount of the customer relationship intangible was reduced by \$73,920 and \$73,918 for the three months ended June 30, 2010 and 2009, respectively and \$147,840 and \$197,130, respectively for the six months ended June 30, 2010 as a result of the recognition of the tax benefit related to excess tax deductible goodwill. The gross carrying amount of the trademark intangible was reduced by \$75,389 and \$75,561, for the three months ended June 30, 2010 and 2009, respectively and \$150,778 and \$201,511, respectively for the six months ended June 30, 2010 as a result of the recognition of the tax benefit related to excess tax deductible goodwill.

The Company's amortization expense associated with other intangible assets was \$130,468 and \$168,409 for the three months ended June 30, 2010 and 2009, respectively and \$271,353 and \$350,410 for the six months ended June 30, 2010 and 2009, respectively.

#### **4. Short-term Debt Obligations and Revolving Credit Facility**

##### ***Short-term Debt Obligations***

Essex Finance entered into two short-term debt obligations with a vendor related to the acquisition of two cranes and related attachments during the year ended December 31, 2009. Essex Finance entered into a third short-term obligation with similar terms as the previous two obligations during the three months ended March 31, 2010. These short-term obligations are interest free for six months and then accrue interest at 3.0% for an additional six months and are collateralized by the respective cranes and attachments purchased. On the six month anniversary of the origination of each obligation, a principal payment of 10% is due. On the one year anniversary of the origination of each obligation, the remaining unpaid principal balance is due, at which time the Company will repay the entire remaining unpaid principal likely using proceeds from the revolving credit facility discussed below. The unpaid principal balances of the individual obligations as of June 30, 2010 are \$2,299,174, \$2,354,379 and \$2,560,847 and mature on October 20, 2010, November 20, 2010 and March 20, 2011, respectively.

##### ***Revolving Credit Facility***

In conjunction with the acquisition of Holdings on October 31, 2008, Essex Crane amended its senior secured revolving line of credit facility ("revolving credit facility"), which permits it to borrow up to \$190.0 million. The maximum borrowing amount of the revolving credit facility may be increased by up to \$5.0 million any time prior to November 2010 subject to certain specified terms and conditions in the credit agreement. Essex Crane may borrow up to an amount equal to the sum of 85% of eligible net receivables and 75% of the net orderly liquidation value of eligible rental equipment. The revolving credit facility is scheduled to mature in October 2013 and is collateralized by a first security interest in substantially all of the Company's assets.

Borrowings under the revolving credit facility accrue interest at the borrower's option of either (a) the bank's prime rate (3.25% at June 30, 2010) plus an applicable margin or (b) a Eurodollar rate based on the rate the bank offers deposits of U.S. Dollars in the London interbank market ("LIBOR") (0.35% at June 30, 2010) plus an applicable margin. The Company is also required to pay a monthly commitment fee with respect to the undrawn commitments under the revolving credit facility. At June 30, 2010 the applicable prime rate margin, euro-dollar LIBOR margin, and unused line commitment fee were 0.25%, 2.25% and 0.25%, respectively. See Note 5 Derivatives and Hedging Activities – Interest Rate Swap Agreement for additional detail.

The weighted average interest rates on the revolving credit facility at June 30, 2010 and 2009 were 2.63% and 2.57%, respectively.

The outstanding balance on the revolving credit facility was \$134.6 million as of June 30, 2010. The maximum amount that could be borrowed under the revolving credit facility, net of letters of credit, interest rate swaps and other reserves was approximately \$174.1 million as of June 30, 2010. The Company's available borrowing under the revolving credit facility is approximately \$39.5 million as of June 30, 2010.

##### ***Loan Covenants and Compliance***

As of June 30, 2010 and for the six months ended, the Company was in compliance with its covenants and other provisions of the revolving line of credit facility. Some of the financial covenants including a fixed charge coverage ratio and rental equipment utilization ratio do not become active unless the available borrowing falls below the \$20.0 million threshold. The amount available for borrowing by the Company of approximately \$39.5 million well exceeded the threshold at June 30, 2010. Any failure to be in compliance with any material provision or covenant of these agreements could have a material adverse effect on the Company's liquidity and operations.

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**5. Derivatives and Hedging Activities – Interest Rate Swap Agreement**

*Risk Management Objective of Using Derivatives*

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's investments and borrowings.

*Cash Flow Hedges of Interest Rate Risk*

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish these objectives, the Company primarily uses an interest rate swap as part of its interest rate risk management strategy. The interest rate swap is designated as a cash flow hedge and involves receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreement without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. There was no hedge ineffectiveness recognized during the six months ended June 30, 2010 or 2009.

In November 2008, the Company entered into an interest rate swap agreement with the lead lender of its revolving credit facility to hedge its exposure to interest rate fluctuations. The swap agreement has a notional principal amount of \$100.0 million and matures in November 2012. Under the agreement, the Company pays a 2.71% fixed interest rate plus the applicable margin under the revolving credit facility (or a total interest rate of 4.96%).

The swap agreement established a fixed rate of interest for the Company and requires the Company or the bank to pay a settlement amount depending upon the difference between the 30 day floating LIBOR rate and the swap fixed rate of 2.71%. The differential to be paid or received under the swap agreement has been accrued and paid as interest rates changed and such amounts were included in interest expense for the respective period. Interest payment dates for the revolving loan were dependent upon the interest rate options selected by the Company. Interest rates on the revolving credit facility were determined based on Wachovia's prime rate or LIBOR rate, plus a margin depending on certain criteria in the agreement. As of June 30, 2010, the Company had effectively fixed through 2012, from a cash flow perspective, the interest rate on approximately 74% of the amount outstanding under the Company's revolving credit facility. As of June 30, 2010, the interest rate on the effectively fixed portion of the credit facility was 4.96% and the weighted average interest rate on the portion of the credit facility not effectively fixed by interest rate swap contracts was 2.72%.

At June 30, 2010, the interest rate swap liability had a fair value of \$4,049,670 and was included in long-term liabilities. The associated unrealized loss reported in accumulated other comprehensive income was \$2,510,796, which is net of tax of \$1,538,875.

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For the six months ended June 30, 2010, the change in net unrealized loss on derivatives designated as cash flow hedges reported as a component of other accumulated comprehensive income (loss) was an increase of \$1,743,376 (\$1,080,893 net of tax). Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the twelve month period ending June 30, 2011, the Company estimates that an additional \$2.2 million will be reclassified as an increase to interest expense.

The weighted average interest rate of the revolving credit facility, including the impact of the interest rate swaps was 4.39% and 4.35% at June 30, 2010 and 2009, respectively. The impact of the interest rate swap resulted in an increase in interest expense of approximately \$612,000 and \$580,000 for the three months ended June 30, 2010 and 2009, respectively. The impact of the interest rate swap resulted in an increase in interest expense of approximately \$1,233,000 and \$1,146,000 for the six months ended June 30, 2010 and 2009, respectively.

The table below presents the fair value of the Company's derivative financial instruments as adjusted for the risk of non-performance as well as their classification on the Balance Sheet as of June 30, 2010 and December 31, 2009:

	Balance Sheet Location	Fair Value as of	
		June 30, 2010	December 31, 2009
<b>Derivatives designated as hedging instruments</b>			
Interest Rate Swap	Long-term Liabilities	\$ 4,049,670	\$ 2,306,294

The table below presents the effect of the Company's derivative financial instruments on the Income Statement for the six months ended June 30, 2010 and 2009. These amounts are presented as other comprehensive income ("OCI").

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
<b>For the Six Months Ended June 30, 2010</b>					
Interest Rate Swap	\$ (2,976,229)	Interest expense	\$ (1,232,853)	Other income / (expense)	\$ -
<b>For the Six Months Ended June 30, 2009</b>					
Interest Rate Swap	\$ 501,122	Interest expense	\$ 1,146,680	Other income / (expense)	\$ -

***Credit-risk-related Contingent Features***

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

As of June 30, 2010, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was approximately (\$4.2 million). As of June 30, 2010, the Company has not posted any cash collateral related to these agreements; however, the Company's available borrowings under its revolving credit facility are reduced by the fair value of the interest rate swap while in a liability position. If the Company had breached any of these provisions at June 30, 2010, it would have been required to settle its obligations under the agreements at their termination value of approximately (\$4.2 million).

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**6. Fair Value**

The FASB issued a statement on Fair Value Measurements which, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis and clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the standard establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 - Observable inputs such as quoted prices in active markets:
- Level 2- Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 - Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The Company's interest rate swap is recorded at fair value on a recurring basis and had a liability fair value of approximately \$4.0 million and \$2.3 million at June 30, 2010 and December 31, 2009, respectively. The Company's interest rate derivative instrument is not traded on a market exchange and therefore, the fair values are determined using valuation models which include assumptions about interest rates based on those observed in the underlying markets (LIBOR swap rate) and are classified within Level 2 of the valuation hierarchy.

The carrying value of the Company's total debt obligations including the revolving credit facility and short-term debt obligations at June 30, 2010 was approximately \$141.8 million. The fair value of the Company's debt was approximately \$135.4 million as of June 30, 2010 calculated using a discounted cash flows approach at a market rate of interest.

The fair values of the Company's financial instruments, other than the interest rate swap and debt obligations, including cash and cash equivalents approximate their carrying values. The Company bases its fair values on listed market prices or third party quotes when available. If not available, then the Company bases its estimates on instruments with similar terms and maturities.

**7. Earnings per Share and Comprehensive Income**

The following tables set forth the computation of basic and diluted earnings per share:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Net income (loss)	\$ (2,228,525)	\$ 472,081	\$ (4,216,264)	\$ 2,522,104
Weighted average shares outstanding:				
Basic	14,535,982	14,108,186	14,332,142	14,108,143
Effect of dilutive securities:				
Warrants	-	2,563,730	-	704,481
Diluted	<u>14,535,982</u>	<u>16,671,916</u>	<u>14,332,142</u>	<u>14,812,624</u>
Earnings (loss) per share				
Basic	<u>\$ (0.15)</u>	<u>\$ 0.03</u>	<u>\$ (0.29)</u>	<u>\$ 0.18</u>
Diluted	<u>\$ (0.15)</u>	<u>\$ 0.03</u>	<u>\$ (0.29)</u>	<u>\$ 0.17</u>

**ESSEX RENTAL CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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Basic earnings per share ("EPS") is computed by dividing the net income by the weighted average number of common shares outstanding during the period. Included in weighted average number of shares outstanding for the three and six month periods ended June 30, 2010 and 2009 is 632,911 shares of common stock for the effective conversion of the retained interest in Holdings into common stock of the Company. Diluted EPS adjusts basic EPS for the effects of Warrants, Units and Options; only in the periods in which such effect is dilutive.

As part of the initial public offering in March 2007, the Company issued an Underwriter Purchase Option ("UPO") to purchase 600,000 Units at an exercise price of \$8.80 per unit. Each unit consists of one share of the Company's common stock and one warrant. Each warrant entitles the holder to purchase from the Company one share of common stock.

The UPO Units that could be converted into 1,200,000 weighted average common shares for the three and six month periods ended June 30, 2010 and 2009 were outstanding but were not included in the computation of diluted earnings per share because the effects would be anti-dilutive. Options that could be converted into 1,050,969 and 565,000 weighted average common shares for the three months ended June 30, 2010 and 2009 and options that could be converted into 846,916 and 565,000 weighted average common shares for the six months ended June 30, 2010 and 2009, respectively were not included in the computation of diluted earnings per share because the effects would be anti-dilutive. Calculated on a weighted average basis on the number of days outstanding warrants that could be converted into 11,718,155 and 12,183,617 weighted average common shares for the three and six month periods ended June 30, 2010, respectively were outstanding but were not included in the computation of diluted earnings per share because the effects would be anti-dilutive. These weighted average amounts include a large number of warrants that were converted to common stock in connection with the Company's offer to permit the Company's warrant holders to tender their warrants for exercise, on a cashless basis. Pursuant to the offer, approximately 7.6 million warrants were converted into shares of common stock as of June 29, 2010 (the expiration date of the offer) and therefore these warrants were outstanding for most of the three and six month periods ended June 30, 2010 and accordingly impacted the weighted average.

As of June 30, 2010, there were 4,061,944 Warrants, 1,050,969 Stock Options, and the UPO for 600,000 Units (as described above) outstanding, which are exercisable at weighted average exercise prices of \$5.00, \$5.40, and \$8.80, respectively.

Comprehensive income (loss) was composed of the following:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Net income (loss)	\$ (2,228,525)	\$ 472,081	\$ (4,216,264)	\$ 2,522,104
Other comprehensive gain (loss) - interest rate swap	(576,686)	1,199,357	(1,080,893)	1,020,272
Comprehensive income (loss)	<u>\$ (2,805,211)</u>	<u>\$ 1,671,438</u>	<u>\$ (5,297,157)</u>	<u>\$ 3,542,376</u>

**8. Income Taxes**

The Company's effective tax rates of 33.5% and 34.8% for the three and six month periods ended June 30, 2010, respectively were higher than the statutory federal tax rate due to state taxes. The Company's effective tax rates of 39.4% and 38.4% for the three and six month periods ended June 30, 2009, respectively were higher than the statutory federal tax rate due to state taxes.

At June 30, 2010, the Company has unused federal net operating loss carry-forwards totaling approximately \$57.3 million that begin expiring in 2020. At June 30, 2010, the Company also has unused state net operating loss carry-forwards totaling approximately \$28.6 million that expire between 2010 and 2021. The net operating loss carry-forwards are primarily from the acquisition of Holdings.

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At June 30, 2010, the Company also has unrecorded excess tax goodwill of approximately \$4.8 million associated with the acquisition of Holdings. The excess tax goodwill is amortized over the remaining six year term as a reduction to the balance in other identifiable intangibles until its balance is reduced to zero, after which it will be recorded as a benefit to the income tax provision.

The Company had unrecognized tax benefits of approximately \$1.2 million at June 30, 2010 and December 31, 2009 primarily associated with tax positions taken in a prior year. The Company had unrecognized tax benefits of \$1.1 million at June 30, 2009 associated with tax positions taken in a prior year. The Company did not incur any income tax related interest expense or penalties related to uncertain tax positions during the three and six month periods ended June 30, 2010 or 2009. The federal tax returns related to Essex Rental Corp. are currently under examination by the IRS for tax years ended December 31, 2008 and 2007. The Company has not received indication of any adjustments to the returns for either tax year.

### **9. Stock Based Compensation**

The Company may issue up to 1,575,000 shares of common stock pursuant to its 2008 Long-term Incentive Plan to employees, non-employee directors and consultants of the Corporation. Options to purchase shares of common stock are granted at or near the market price on the grant date and expire approximately ten years from issuance.

The Company issued 11,467 shares of common stock under the Hyde Park Acquisition Corp. 2008 Long-term Incentive Plan during the six months ended June 30, 2010 to certain employees as compensation. The weighted average grant price of the shares was \$6.26 per share. The aggregate grant date fair value of approximately \$74,000 was recorded as compensation within selling, general and administrative expenses and salaries, payroll taxes and benefits with an offset recorded in additional paid in capital. These shares, which amount to 42% of the amount of reduced cash salaries, were issued as part of a temporary salary reduction program pursuant to which our chief executive officer, members of executive management and other key managers receiving salaries elected to reduce the amount of their salaries paid in cash by 30 percent, 20 percent and 10 percent, respectively. The shares issued pursuant to the salary reduction program vested immediately upon grant and are restricted from sale for a period of two years from the date of grant.

On March 18, 2010, the Company granted to certain key members of management options to purchase 485,969 shares of common stock at \$6.45 per share. The weighted-average grant date fair value per share of options granted was \$3.76 resulting in a grant date fair value of \$1,827,243. The stock options vest one-third annually beginning in January 1, 2011, and as such, none were vested as of June 30, 2010. Such options will expire and no longer be exercisable after March 18, 2020.

On December 18, 2008, the Company granted to certain key members of management options to purchase 565,000 shares of common stock at \$4.50 per share. The weighted-average grant date fair value per share of options granted was \$2.54 resulting in a grant date fair value of \$1,434,671. The stock options vest one-third annually beginning in December 2009, and as such, 188,333 of these options were vested as of June 30, 2010. Such options will expire and no longer be exercisable after December 18, 2018.

The fair values of the stock options granted are estimated at the date of grant using the Black-Scholes option pricing model. The model is sensitive to changes in assumptions which can materially affect the fair value estimate. The Company's method of estimating expected volatility was based on the volatility of its peers since the Successor had only had operations for a short time as of the date of grant. The expected dividend yield was estimated based on the Company's expected dividend rate over the term of the options. The expected term of the options was based on management's estimate, and the risk-free interest rate is based on U.S. Treasuries with a term approximating the expected life of the options. The expected volatility, dividend, term and risk free interest rate used to value the stock options granted in 2010 were 61.0%, 0.0%, 6 years and 2.79%, respectively. The expected volatility, dividend, term and risk free interest rate used to value the stock options granted in 2008 were 61.0%, 0.0%, 6 years and 1.43%, respectively.

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The Company recorded \$311,343 and \$460,405 of non-cash compensation expense in selling, general and administrative expenses for the three and six month periods ended June 30, 2010, respectively. The Company recorded \$119,556 and \$239,112 of non-cash compensation expense in selling, general and administrative expenses for the three and six month periods ended June 30, 2009, respectively. As of June 30, 2010 and 2009, there was approximately \$2.3 million and \$1.2 million, respectively of total unrecognized compensation cost related to non-vested stock option awards. The remaining cost is expected to be recognized ratably over the remaining respective vesting periods. Based on the Company's closing common stock price of \$5.98 at June 30, 2010, 565,000 of the options outstanding were in the money resulting in an aggregate intrinsic value of approximately \$0.8 million.

#### **10. Common Stock and Warrants**

In May 2009, our Board of Directors approved an offer allowing warrant holders to tender their warrants for exercise on a cashless basis by exchanging their warrants for shares of the Company's common stock. The offer was approved in accordance with the recommendation of a committee comprised of the independent members of the Board who do not own warrants. In June 2010, the Board of Directors extended and amended the offer. Under the terms of the amended offer, the Board temporarily modified the terms of the Company's outstanding warrants, to provide warrant holders with the opportunity to exercise their warrants on a cashless basis by exchanging three warrants for one share of the Company's common stock. The number of properly tendered warrants that would be accepted by the Company in the offer was limited to 8,000,000 warrants. The amended offer expired on June 29, 2010. Pursuant to the offer, a total of 7,642,674 warrants were tendered for cashless exercise. Included in the tendered warrants were 936,840 warrants tendered by our officers and directors. In accordance with the offer, our officers and directors participated in the offer to the same extent as other warrant holders, which was at a participation rate of 65.3%. As a result of the exercise of warrants, 2,547,558 shares of common stock were issued.

In October 2008, our Board of Directors authorized a stock and warrant repurchase program, under which the Company may purchase, from time to time, in open market transactions at prevailing prices or through privately negotiated transactions as conditions permit, up to \$12.0 million of the Company's outstanding common stock and warrants. Repurchases of our common stock and warrants are funded with cash flows of the business.

The Company repurchased 519,905 warrants to acquire common stock for approximately \$0.9 million during the six months ended June 30, 2010. The Company repurchased 28,200 warrants to acquire common stock for approximately \$25,000 during the six months ended June 30, 2009. There was approximately \$9.0 million remaining available for future common stock and warrant repurchases subsequent to these repurchases. In May 2010, the Company suspended its share and warrant repurchase program in conjunction with the launching of the cashless exercise warrant offer.

The Company issued 471,258 shares of common stock upon the exercise of warrants in exchange for cash proceeds of approximately \$2.4 million during the six months ended June 30, 2010. The Company issued 1,300 shares of common stock during the six months ended June 30, 2009 for director services.

#### **11. Commitments, Contingencies and Related Party Transactions**

The Company occupies office space provided by ProChannel Management LLC, an affiliate of Laurence S. Levy, our chairman of the board. Such affiliate has agreed that it will make such office space, as well as certain office and administrative services, available to the Company, as may be required by the Company from time to time. The Company has agreed to pay such entity \$7,500 per month for such services with the terms of such arrangement being reconsidered from time to time. The Company's statements of operations for the three and six month periods ended June 30, 2010 and 2009 include \$22,500 and \$45,000, respectively of expense related to this agreement.

The Initial Stockholders and the holders of the Insider Warrants (or underlying securities) will be entitled to registration rights with respect to their founding shares or Insider Warrants (or underlying securities), as the case may be. The holders of the majority of the founding shares are entitled to demand that the Company register these shares at any time commencing three months prior to the first anniversary of the consummation of a business combination. The holders of the Insider Warrants (or underlying securities) are entitled to demand that the Company register these securities at any time. In addition, the Initial Stockholders and holders of the Insider Warrants (or underlying securities) have certain "piggy-back" registration rights on registration statements filed after the Company's consummation of a Business Combination.

**ESSEX RENTAL CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

In connection with the closing of the acquisition of Essex Crane, Essex Rental granted registration rights to Ronald Schad, Martin Kroll, William Erwin and William O'Rourke, members of Essex Crane's senior management, with respect to the shares of common stock issuable upon exchange of their Retained Interests. Prior to October 31, 2010, Ronald Schad, Martin Kroll, William Erwin and William O'Rourke will have piggyback registration rights with respect to the 632,911 shares of common stock issuable upon exchange of their Retained Interests, in connection with any registration of shares of common stock held by Laurence Levy or Edward Levy and their respective affiliates. Following October 31, 2010, Messrs. Schad, Kroll, Erwin and O'Rourke will have piggyback registration rights with respect to such shares in connection with any registration of shares of Common Stock and the holders of 50% of the shares of Common Stock issuable upon exchange of the Retained Interests held by Messrs. Schad, Kroll, Erwin and O'Rourke will be entitled to one demand that Essex Rental register their shares Common Stock.

The Company maintains reserves for personal property taxes. These reserves are based on a variety of factors including: duration of rental in each county jurisdiction, tax rates, rental contract terms, customer filings, tax-exempt nature of projects or jurisdictions, statutes of limitations and potential related penalties and interest. Additionally, most customer rental contracts contain a provision that provides that personal property taxes are an obligation to be borne by the lessee. Where provided in the rental contract, management will invoice the customer for any personal property taxes paid by the Company. An estimated receivable has been recorded, net of an estimated allowance in connection with this liability. This customer receivable has been presented as other receivables in current assets while the property tax reserve has been included in accrued taxes.

Management estimated the gross personal property taxes liability and related contractual customer receivable of the Company to be approximately \$4.5 million and \$3.4 million, respectively at June 30, 2010 and approximately \$4.3 million and \$4.1 million, respectively at June 30, 2009.

A portion of the sale proceeds of Holdings in the amount of \$7,392,000 was placed into a general escrow and compliance escrow of which, \$1.0 million was related to a working capital escrow and \$492,255 was for environmental remediation projects in process at the time the acquisition transaction closed. The remaining funds were related to other transaction related items estimated at the time of close. During 2009, the Company received approximately \$0.6 million from the escrow as reimbursement for environmental remediation projects and the remaining funds were released from escrow to the seller in accordance with the terms of the escrow agreement.

In May 2010, the Company funded a letter of credit of approximately \$5.2 million as collateral in relation to potential future financial obligations and is classified within restricted cash deposits within the accompanying consolidated balance sheets. The letter of credit has no expiration but may be terminated upon consent by the Company and a third party.

The Company is subject to a number of claims and proceedings that generally arise in the normal conduct of business. The Company believes that any liabilities ultimately resulting from these claims will not, individually or in the aggregate, have a material adverse effect on our financial position, results of operations or cash flows.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion summarizes the financial position of Essex Rental Corp. and its subsidiaries as of June 30, 2010, and its results of operations for the three and six month periods ended June 30, 2010 and should be read in conjunction with (i) the unaudited consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q and (ii) the audited consolidated financial statements and accompanying notes to our Annual Report on Form 10-K for the year ended December 31, 2009.

As used in this Quarterly Report, references to "the Company" or "Essex" or to "we," "us" or "our" refer to Essex Rental Corp., together with its consolidated subsidiaries, Essex Holdings, LLC, Essex Finance Corp. and Essex Crane Rental Corp, unless the context otherwise requires.

### Business

#### Background

Essex Rental was formed on August 21, 2006 as Hyde Park Acquisition Corp. to serve as a vehicle to effect a merger, capital stock exchange, asset acquisition or other similar business combination with an operating company. Essex Rental consummated its initial public offering on March 13, 2007. All activity from August 21, 2006 (inception) through March 13, 2007 related to Essex Rental Corp's (formerly Hyde Park Acquisition Corp.) formation and initial public offering. From March 13, 2007 through October 31, 2008, the Company's activities were limited to identifying prospective target businesses to acquire and complete a business combination. On October 31, 2008, the Company consummated the acquisition of Holdings and its wholly-owned subsidiary, Essex Crane, and, as a result, is no longer in the development stage. For more information regarding the acquisition of Holdings and Essex Crane, see Note 1 to our consolidated financial statements.

Essex Crane is a leading provider of lattice-boom crawler crane and attachment rental services and possesses one of the largest fleets of such equipment in the United States. Over approximately 49 years of operation, since its founding in 1960, Essex Crane has steadily grown from a small, family-owned crane rental company to a private equity owned professionally managed company that today is a public company and one of the leading players in its industry offering lattice boom crawler rental services to a variety of customers, industries and regions mainly throughout the United States and Canada.

Essex Crane's fleet size currently stands at more than 350 lattice-boom crawler cranes and various types of attachments which are made available to clients depending upon the lifting requirements of its customers such as weight, pick and carry aspects, reach and angle of reach. The fleet's combination of crawler cranes and attachments is diverse by lift capacity and capability, allowing Essex Crane to meet the crawler crane requirements of its engineering and construction firm customer base. Essex Crane rents its crawler cranes and attachments "bare," meaning without an Essex Crane-supplied operator, and arranges the transportation of cranes and attachments for its customers in return for a charge for these services. Once the crane is erected on the customer's site, inspected and determined to be operating properly by the customer's crane operator and management, the majority of the maintenance and repair costs are the responsibility of the customer while the equipment is on rent. This business model allows Essex Crane to minimize its headcount and operating costs including reduced liability related to operator error and provides the customer with a more flexible situation where they control the crane and the operator's work schedule.

Through a network of four main service centers, three smaller service locations and several remote storage yards, complemented by a geographically dispersed highly skilled staff of sales and maintenance service professionals, Essex Crane serves a variety of customers engaged in construction and maintenance projects related to power plants, refineries, bridge and road, alternative energy, water treatment and purification, hospitals, shipbuilding and other infrastructure and commercial construction. Essex Crane has significantly diversified the end-markets it serves in recent years to avoid over-exposure to any one sector of the construction segment. Essex Crane uses its significant investment in modern enterprise resource planning ("ERP") systems and business process methods to help its management assimilate information more quickly than others in our industry, and to provide management with real time visibility of the factors that must be effectively managed to achieve Essex's goals. Essex Crane's end-markets are characterized by medium to large construction projects many times with longer lead times. Management believes that these longer lead times, coupled with most contracts having rental periods of between 4 and 18 months, provide them more visibility over future project pipelines and revenues.

## Products and Services

Our principal products and services are described below.

**Equipment Rental** We offer for rent approximately 30 models of crawler crane and attachment rental equipment on a monthly basis. The attachments are rented separately and increase either the lifting capacity or the reach capabilities of the base crawler crane. Crawler cranes are long-lived assets with actual lives of up to 50 years or more when properly maintained. The weighted-average age of our fleet was approximately 14 years at June 30, 2010 and December 31, 2009. The weighted-average lifting capacity of our fleet was approximately 255 tons and 250 tons as of June 30, 2010 and December 31, 2009, respectively.

**Used Equipment Sales** We routinely sell used rental equipment and invest in new equipment in order to manage the mix, composition and size of our fleet. We also sell used equipment in response to customer demand for this equipment. The rate at which we replace used equipment with new equipment depends on a number of factors, including changing general economic conditions, growth opportunities and the need to adjust fleet mix to meet customer requirements and demand.

**Transportation Service and Other Revenue** We also offer transportation and repair and maintenance services and sell parts mainly for equipment that is owned by Essex Crane. Our target customers for these ancillary services are our current rental customers as well as those who purchase used equipment from us.

Essex Crane generates revenues from a number of sources as follows:

- Equipment rentals revenue – Essex Crane rents its fleet of over 350 cranes and attachments to a variety of engineering and construction customers under rental agreements, most of which have rental periods of between 4 and 18 months. The rental agreements typically provide for an agreed rental rate and a specified rental period. Essex Crane's revenue from crane and attachment rentals is primarily driven by rental rates (which are typically higher for the more expensive cranes with heavier lifting capacities than less expensive cranes with lower lifting capacities) charged to its customers and its fleet utilization rate. Rental revenue is recognized as earned in accordance with the terms of the relevant rental agreement on a pro rata daily basis;
- Used rental equipment sales revenue – In Essex Crane's ordinary course of business, it sells used cranes and attachments over time to optimize the combination of crane models and lifting capacities available in its fleet as it perceives market demands and opportunities. On average, Essex Crane has historically achieved sale prices for equipment in excess of the appraised value. This is due to the long useful life of Essex Crane's crane and attachment fleet, the conditions prevailing in the secondary market and the high content of engineered high-strength steel included in these fleet assets. Used rental equipment sales are recognized upon acceptance by the customer or the execution of a definitive sales agreement stipulating the date of transferring the risk of ownership;
- Transportation services revenue – Transportation services revenue is derived from Essex Crane's management of the logistics process by which Essex Crane's rental equipment is transported to and from customers' construction sites, including the contracting of third party trucking for such transportation. Transportation revenue is earned under equipment rental agreements on a gross basis representing both the third-party provider's fee for transportation and Essex Crane's fee for managing these transportation services and they are matched with the associated costs, and related costs for amounts paid to third party providers. The key drivers of transportation revenue are crane and attachment utilization rates and average contract lengths. Shorter average contract durations and high utilization rates generally result in higher requirements for transportation of equipment and resulting revenue. The distance that equipment has to move between different jobsites and the type of equipment being moved (number of truckloads) are also major drivers of transportation revenue and associated costs. Transportation revenue is recognized upon completion of the transportation of equipment; and

- Equipment repair and maintenance services revenue – While crawler cranes or attachments are on rent, much of the repair and maintenance work is paid for by the customer. Essex Crane performs a portion of the repair and maintenance work and recognizes revenue for such services to the extent they are the customer’s responsibility. This category of revenue also includes Essex Crane providing certain services while erecting the equipment during initial assembly or disassembly of the equipment at the end of the rental. Lastly, parts sales revenue is also included in this category of revenue. Key drivers for repair and maintenance revenue are the utilization rates for cranes and attachments as well as jobsite operating conditions. Repair and maintenance revenue is recognized as such services are performed.

The following table provides a summary of the Company’s revenue generating activities discussed above expressed as a percentage of total revenues:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Equipment rentals	60.1%	61.0%	60.9%	66.1%
Used rental equipment sales	19.7%	18.3%	16.1%	14.7%
Transportation	10.7%	10.4%	11.6%	9.1%
Equipment repairs and maintenance	9.5%	10.3%	11.4%	10.1%

### Utilization Measurement

Historically, Essex Crane measured equipment utilization using what was referred to as the “hits” method. Under this method, equipment on rent for any period of time within a month counted as a utilization hit. This meant that if a piece of equipment were on rent for one day in a month it would be treated the same in the utilization statistic as a piece of equipment on rent for all 30 days in a month. Essex Crane’s management believes that the “hits” utilization measurement has a less direct correlation with equipment rental revenue than the “days” method described below.

Upon implementation of Essex Crane’s ERP System in 2002, Essex Crane began to measure utilization using the method referred to as the “days” method. Essex’s management believes that this method, while it may reflect lower utilization rates than the “hits” method, is the most accurate method for measuring equipment utilization and correlates most closely with rental revenue. Under this method, a real time report is generated from the ERP system for each piece of equipment on rent in a period. The report includes the number of days each piece of equipment was on rent on a particular lease and the base monthly rental rate (excluding any overtime revenues). The total number of days on rent of all pieces of rental equipment provides the numerator for determining utilization. The denominator is all rental equipment assets owned times the number of days in the month. The “days” method is the utilization measurement currently used by Essex, and Essex anticipates that the “days” method will be the primary basis for future disclosure of utilization rates for Essex’s cranes and attachments.

### Current Environment

Many of the market sectors served by Essex Crane have been adversely affected by the weakening economy and difficult commercial credit environment. Management believes that, in the long-term, Essex Crane’s strong niche market position and improvements in its fleet due to investment in new cranes will provide opportunity for future growth. Management bases such belief on the assumption that, in the long-term, there will be improvements in our customers’ ability to obtain financing, including credit for infrastructure projects. We cannot assure you, however, that Essex Crane’s customers’ access to financing for infrastructure projects, including credit, will improve.

### Results of Operations

#### *Three months ended June 30, 2010 compared to the three months ended June 30, 2009*

The Company had a net loss before income taxes of \$3.3 million for the three months ended June 30, 2010 compared to a net income before income taxes of \$0.8 million for the three months ended June 30, 2009, a decrease of \$4.1 million. The decline in net income is primarily related to a decrease in total revenues of \$5.5 million, which was partially offset by decreases in total cost of revenues and selling, general and administrative expenses of \$1.3 million and \$0.1 million, respectively. These decreases are discussed in more detail below.

## Revenues

Revenues for the three months ended June 30, 2010 were \$9.0 million, a 37.8% decrease compared to revenues of \$14.5 million for the three months ended June 30, 2009. Total revenues were comprised of the following components:

- Equipment rentals revenue, which represented 60.1% of total revenues, was \$5.4 million for the three months ended June 30, 2010, a 38.6% decrease from \$8.9 million for the three months ended June 30, 2009. This decrease was primarily driven by a decrease in crane utilization to 35.1% under the “days” method (or 38.8% if calculated using the “hits” method) for the three months ended June 30, 2010 from 43.9% under the “days” method (or 48.5% if calculated using the “hits” method) for the three months ended June 30, 2009. The decrease in utilization was a result of excess market supply of rental equipment compared to the demand brought on by the weakening economy and a difficult commercial credit environment. The Company also experienced a decrease in the average crane rental rate of 24.3% to \$16,372 (per crane per rental month) for the three months ended June 30, 2010 from \$21,633 for the three months ended June 30, 2009. Approximately one-third of this \$5,261 per month decline in the average rental rate is due to a less robust mix of equipment on rent. The large decrease in the average rental rate is also due in part to the expiration of rental agreements executed at higher rental rates in the prior years and new agreements being entered into at lower average rental rates. Management does not expect an increase in average rental rates until utilization rates recover.
- Used rental equipment sales revenue, which represented 19.7% of total revenues, was \$1.8 million for the three months ended June 30, 2010, a 33.1% decrease from used rental equipment sales revenue of \$2.7 million for the three months ended June 30, 2009. These used equipment sales have presented the Company with opportunities to further enhance its combination of cranes and attachments by providing an additional cash flow source for purchasing additional new rental equipment. Three lower lifting capacity cranes and attachments were sold by the Company for the three months ended June 30, 2010, a decrease from six for the three months ended June 30, 2009. During both periods, the market provided opportunities to sell lower utilized units with lower rental rates that represented excess capacity even at historically high utilization periods. The average lifting capacity of cranes sold was 230 tons and 150 tons for the three month periods ended June 30, 2010 and 2009, respectively, compared to approximately 440 tons for a crane purchased during the three months ended June 30, 2009. Cranes sold during the three months ended June 30, 2010 were sold at an average price in excess of 120% of Orderly Liquidation Value (“OLV”). OLV is determined for collateral measurement purposes by an independent appraiser on behalf of the lead lender for the Company’s asset based revolving credit facility. During the three months ended June 30, 2009, Essex reinvested the proceeds of such sales into a smaller number of larger cranes and attachments which typically yield higher utilization rates and higher relative rental rates on the capital costs and enable Essex to improve the strategic position of its rental fleet for the future;
- Transportation revenue, which represented 10.7% of total revenues was \$1.0 million for the three months ended June 30, 2010, a 36.0% decrease from transportation revenue of \$1.5 million for the three months ended June 30, 2009. This decrease is primarily a result of lower crane rental utilization and was impacted by the combination of cranes and attachments rented and the specific distances that equipment had to move for various rentals; and
- Equipment repairs and maintenance revenue (including rigging and other services), which represented 9.5% of total revenues, was \$0.9 million for the three months ended June 30, 2010, a 42.7% decrease from equipment repair and maintenance revenue of \$1.5 million for the three months ended June 30, 2009. This decrease is attributed to a lower demand for repairs, maintenance and other services resulting from lower crane rental utilization.

### *Cost of Revenues*

Cost of revenues for the three months ended June 30, 2010 was \$7.9 million, a 13.8% decrease from cost of revenues of \$9.2 million for the three months ended June 30, 2009. Cost of revenues was 87.2% of total revenue for the three months ended June 30, 2010, relative to 63.0% for the three months ended June 30, 2009. The decrease in cost of revenues resulted from decreases in salaries, payroll taxes and benefits, transportation, equipment repairs and maintenance and a decrease in the book value of equipment sold. These reductions in cost of revenues were partially offset by a small increase in depreciation expense as described below. The increase in cost of revenues as a percentage of total revenue is due to fixed costs including non-cash depreciation expense, other cash fixed costs and the proportion of total revenues from the sale of used equipment at lower margins than rental related margins.

Salary, payroll tax and benefit expenses decreased 13.7% to \$1.3 million for the three months ended June 30, 2010 from \$1.5 million for the three months ended June 30, 2009. The decrease was a direct result of a 10% salary reduction on certain operations managers, reduced hours, lower overtime, some headcount reduction and reduced bonus expense. The temporary salary reduction program began in May 2009.

Depreciation expense related to rental equipment increased 4.1% to \$2.9 million for the three months ended June 30, 2010 compared to \$2.8 million for the three months ended June 30, 2009. The increase in depreciation expense is primarily related to depreciation expense incurred on rental equipment purchased during 2009 and 2010 in excess of the foregone depreciation expense related to used rental equipment sold during the same period. Since January 1, 2009, the Company has invested approximately \$22.5 million in rental equipment and sold used rental equipment assets over the same period with a combined book value, net of accumulated depreciation of approximately \$6.9 million.

Net book value of rental equipment sold decreased 42.9% to \$1.3 million for the three months ended June 30, 2010 from \$2.4 million for the three months ended June 30, 2009. The decrease in net book value of equipment sold was driven by a decrease in the number of rental equipment items sold.

Transportation expenses decreased 12.3% to \$0.9 million for the three months ended June 30, 2010 from \$1.1 million for the three months ended June 30, 2009. The decrease was related primarily to lower crane rental utilization.

Equipment repairs and maintenance expenses were \$1.1 million for both three month periods ended June 30, 2010 and 2009.

Yard operating expenses were \$0.3 million for both three month periods ended June 30, 2010 and 2009.

Essex Crane's gain on the sale of used rental equipment was \$0.4 million (24.5% margin, calculated by dividing the gain on the sale by the revenue from such sale) for the three months ended June 30, 2010 compared to a gain of \$0.3 million (11.6% margin) for the three months ended June 30, 2009. The increase in gain on sale was due to higher accumulated depreciation balances resulting in lower book values of equipment sold, the mix of used equipment sold and also due to the assets maintaining their market values. Three cranes and attachments were sold during the three months ended June 30, 2010 compared to six cranes and attachments sold during the three months ended June 30, 2009.

Total selling, general and administrative expenses for the three months ended June 30, 2010 were \$2.6 million, a \$0.1 million or 3.7% decrease from \$2.7 million for the three months ended June 30, 2009. Selling, general, and administrative expenses decreased despite an increase in professional and legal fees incurred as a result of the Company's cashless exercise warrant offer, primarily due to reductions in rental commissions, bad debt expense and a compensation expense decrease primarily due to a reduction in bonus expense and the temporary salary reduction program pursuant to which our chief executive officer, members of our executive management and other key managers receiving salaries elected to reduce the amount of their salaries paid in cash in exchange for fully vested common shares that are temporarily restricted from sale and valued at approximately 42% of the reduced cash compensation. The temporary salary reduction program began in May 2009. Other components of administrative expenses include: employee benefits, insurance and selling and marketing expenses.

Interest expense was \$1.7 million for both three month periods ended June 30, 2010 and 2009. The balances outstanding on the revolving credit facility as of June 30, 2010, December 31, 2009, June 30, 2009 and December 31, 2008 were \$134.6 million, \$131.9 million, \$134.7 million and \$137.4 million, respectively. For the three months ended June 30, 2010 and 2009, interest rates remained consistently low.

Income tax benefit was \$1.1 million for the three months ended June 30, 2010 compared to a \$0.3 million income tax expense for the three months ended June 30, 2009. The decrease in income tax expense is due to the decrease in income before taxes. The effective tax rates were 33.5% and 39.4% for the three months ended June 30, 2010 and 2009, respectively.

Essex Crane had 109 full-time employees at June 30, 2010 compared to 119 full-time employees at June 30, 2009 after a reduction in headcount by nine employees during the three months ended March 31, 2009.

#### *Six months ended June 30, 2010 compared to the six months ended June 30, 2009*

The Company had a net loss before income taxes of \$6.5 million for the six months ended June 30, 2010 compared to a net income before income taxes of \$4.1 million for the six months ended June 30, 2009, a decrease of \$10.6 million. The decline in net income is primarily related to a decrease in total revenues of \$14.5 million, which was partially offset by decreases in total cost of revenues and selling, general and administrative expenses of \$3.2 million and \$0.7 million, respectively. These decreases are discussed in more detail below.

#### *Revenues*

Revenues for the six months ended June 30, 2010 were \$17.4 million, a 45.6% decrease compared to revenues of \$31.9 million for the six months ended June 30, 2009. Total revenues were comprised of the following components:

- Equipment rentals revenue, which represented 60.9% of total revenues, was \$10.6 million for the six months ended June 30, 2010, a 49.9% decrease from \$21.1 million for the six months ended June 30, 2009. This decrease was primarily driven by a decrease in crane utilization to 32.6% under the “days” method (or 36.1% if calculated using the “hits” method) for the six months ended June 30, 2010 from 50.6% under the “days” method (or 55.5% if calculated using the “hits” method) for the six months ended June 30, 2009. The decrease in utilization was a result of excess market supply of rental equipment compared to the demand brought on by the weakening economy and a difficult commercial credit environment. The Company also experienced a decrease in the average crane rental rate of 23.6% to \$16,967 (per crane per rental month) for the six months ended June 30, 2010 from \$22,213 for the six months ended June 30, 2009. Approximately one-half of this \$5,246 per month decline in the average rental rate is due to a less robust mix of equipment on rent. The large decrease in the average rental rate is also due in part to the expiration of rental agreements executed at higher rental rates in the prior years and new agreements being entered into at lower average rental rates. Management does not expect an increase in average rental rates until utilization rates recover.
- Used rental equipment sales revenue, which represented 16.1% of total revenues, was \$2.8 million for the six months ended June 30, 2010, a 40.4% decrease from used rental equipment sales revenue of \$4.7 million for the six months ended June 30, 2009. These used equipment sales have presented the Company with opportunities to further enhance its combination of cranes and attachments by providing an additional cash flow source for purchasing additional new rental equipment. Five lower lifting capacity cranes and attachments were sold by the Company for the six months ended June 30, 2010, a decrease from nine for the six months ended June 30, 2009. In both periods, the market presented opportunities to sell a number of the lower utilization units which have lower rental rates, and Essex reinvested the proceeds of such sales into a smaller number of larger cranes and attachments which typically yield higher utilization rates and higher relative rental rates on the capital costs and enable Essex to improve the strategic position of its rental fleet for the future. The average lifting capacity of cranes sold was 193 tons and 163 tons for the six month periods ended June 30, 2010 and 2009, respectively, compared to over 440 tons and approximately 312 tons for cranes purchased during the same periods, respectively. Cranes sold during the six months ended June 30, 2010 were sold at an average price in excess of 120% of OLV. OLV is determined for collateral measurement purposes by an independent appraiser on behalf of the lead lender for the Company’s asset based revolving credit facility;

- Transportation revenue, which represented 11.6% of total revenues was \$2.0 million for the six months ended June 30, 2010, a 30.9% decrease from transportation revenue of \$2.9 million for the six months ended June 30, 2009. This decrease is primarily a result of lower crane rental utilization and was impacted by the combination of cranes and attachments rented and the specific distances that equipment had to move for various rentals; and
- Equipment repairs and maintenance revenue (including rigging and other services), which represented 11.4% of total revenues, was \$2.0 million for the six months ended June 30, 2010, a 38.2% decrease from equipment repair and maintenance revenue of \$3.2 million for the six months ended June 30, 2009. This decrease is attributed to a lower demand for repairs, maintenance and other services resulting from lower crane rental utilization.

#### *Cost of Revenues*

Cost of revenues for the six months ended June 30, 2010 was \$15.0 million, a 17.5% decrease from cost of revenues of \$18.2 million for the six months ended June 30, 2009. Cost of revenues was 86.5% of total revenue for the six months ended June 30, 2010, relative to 57.1% for the six months ended June 30, 2009. The decrease in cost of revenues resulted from decreases in salaries, payroll taxes and benefits, transportation, equipment repairs and maintenance, yard operating expenses and a decrease in the book value of equipment sold. These reductions in cost of revenues were partially offset by a small increase in depreciation expense as described below. The increase in cost of revenues as a percentage of total revenue is due to fixed costs including non-cash depreciation expense, other cash fixed costs and the proportion of total revenues from the sale of used equipment at lower margins than rental related margins.

Salary, payroll tax and benefit expenses decreased 17.2% to \$2.6 million for the six months ended June 30, 2010 from \$3.2 million for the six months ended June 30, 2009. The decrease was a direct result of a 10% salary reduction on certain operations managers, reduced hours, lower overtime, some headcount reduction and reduced bonus expense. The temporary salary reduction program began in May 2009.

Depreciation expense related to rental equipment increased 3.6% to \$5.8 million for the six months ended June 30, 2010 compared to \$5.6 million for the six months ended June 30, 2009. The increase in depreciation expense is primarily related to depreciation expense incurred on rental equipment purchased during 2009 and 2010 in excess of the foregone depreciation expense related to used rental equipment sold during the same period. Since January 1, 2009, the Company has invested approximately \$22.5 million in rental equipment and sold used rental equipment assets over the same period with a combined book value, net of accumulated depreciation of approximately \$6.9 million.

Net book value of rental equipment sold decreased 46.1% to \$2.2 million for the six months ended June 30, 2010 from \$4.1 million for the six months ended June 30, 2009. The decrease in net book value of equipment sold was driven by a decrease in the number of rental equipment items sold.

Transportation expenses decreased 15.1% to \$1.8 million for the six months ended June 30, 2010 from \$2.1 million for the six months ended June 30, 2009. The decrease was related primarily to lower crane rental utilization.

Equipment repairs and maintenance expenses decreased 20.8% to \$2.0 million for the six months ended June 30, 2010 from \$2.5 million for the six months ended June 30, 2009. The decrease was related primarily to lower crane rental utilization and also related to improved cost productivity and lower parts expense.

Yard operating expenses decreased 15.1% to \$0.6 million for the six months ended June 30, 2010 from \$0.8 million for the six months ended June 30, 2009. The decrease was related primarily to lower crane rental utilization.

Essex Crane's gain on the sale of used rental equipment was \$0.6 million (21.3% margin, calculated by dividing the gain on the sale by the revenue from such sale) for the six months ended June 30, 2010 compared to a gain of \$0.6 million (13.0% margin) for the six months ended June 30, 2009. Five cranes and attachments were sold during the six months ended June 30, 2010 compared to nine cranes and attachments sold during the six months ended June 30, 2009. Despite the decrease in the number of cranes and attachments sold, gain on sale was consistent between the periods because higher accumulated depreciation balances resulting in lower book values of equipment sold, the mix of used equipment sold and also due to the assets maintaining their market values.

Total selling, general and administrative expenses for the six months ended June 30, 2010 were \$5.1 million, a \$0.7 million or 12.1% decrease from \$5.8 million for the six months ended June 30, 2009. Selling, general, and administrative expenses decreased despite an increase in professional and legal fees incurred as a result of the Company's cashless exercise warrant offer, primarily due to reductions in rental commissions, bad debt expense and a compensation expense decrease primarily due to a reduction in bonus expense and the temporary salary reduction program pursuant to which our chief executive officer, members of our executive management and other key managers receiving salaries elected to reduce the amount of their salaries paid in cash in exchange for fully vested common shares that are temporarily restricted from sale and valued at approximately 42% of the reduced cash compensation. Other components of administrative expenses include: employee benefits, insurance and selling and marketing expenses.

Interest expense decreased 2.3% to \$3.3 million for the six months ended June 30, 2010 from \$3.4 million for the six months ended June 30, 2009. The decrease in interest expense was primarily due to a decrease in the average balance outstanding under the revolving credit facility. For the six months ended June 30, 2010 and 2009, interest rates were consistently low.

Income tax benefit was \$2.3 million for the six months ended June 30, 2010 compared to a \$1.6 million income tax expense for the six months ended June 30, 2009. The decrease in income tax expense is due to the decrease in income before taxes. The effective tax rates were 34.8% and 38.4% for the six months ended June 30, 2010 and 2009, respectively.

## **Liquidity and Capital Resources**

*Cash flow from operating activities.* The Company's cash used in operating activities for the six months ended June 30, 2010 was approximately \$0.4 million. This was primarily the result of net loss of \$4.2 million, which, when adjusted for non-cash expense items, such as depreciation and amortization, gains on the sale of equipment, deferred income taxes and share-based compensation expense, resulted in the use of approximately \$0.2 million of cash. The cash flows from operating activities were also increased by a \$0.3 million reduction in net accounts receivable and a \$0.2 million increase in unearned rental revenue. These positive cash flows were reduced by a \$0.2 million increase in prepaid expenses and other assets, a \$0.1 million increase in spare parts inventory and a \$0.4 million decrease in accounts payable and accrued expenses. The total cash used in operating activities related to working capital changes was \$0.2 million.

The Company's cash provided by operating activities for the six months ended June 30, 2009 was approximately \$10.4 million. This was primarily the result of net income of \$2.5 million, which, when adjusted for non-cash expense items such as depreciation and amortization, deferred income taxes, stock-based compensation expense and net gains on the sale of rental equipment, provided positive cash flows of approximately \$9.7 million. The cash flows from operating activities were also positively impacted by a decrease of \$4.8 million in net accounts receivable. Partially offsetting these positive cash flows were increases in our spare parts inventory of \$0.3 million, a \$2.8 million decrease in accounts payable and accrued expenses and a \$1.0 million decrease in unearned rental revenue. The total increase to cash flow from operating activities related to working capital changes was \$0.7 million.

*Cash flow from investing activities.* The Company's cash used in investing activities for the six months ended June 30, 2010 was approximately \$2.9 million. This was primarily the result of an increase to restricted cash deposits of \$5.2 million and payments to acquire or improve rental equipment and property and equipment of \$0.6 million. These uses of cash were partially offset by \$2.8 million in proceeds on the sale of equipment and a reduction in the amount of receivables related to rental equipment sales of \$0.1 million. In addition, the Company purchased one rental equipment item for approximately \$2.6 million during the six months ended June 30, 2010, which was directly funded by a new short-term debt obligation.

The Company's cash used in investing activities for the six months ended June 30, 2009 was approximately \$7.7 million. This was primarily due to purchases of rental equipment and property and equipment of \$12.2 million and \$0.2 million, respectively, which was partially offset by the proceeds from the sale of rental equipment of approximately \$4.7 million.

*Cash flow from financing activities.* Cash provided by financing activities was approximately \$3.6 million for the six months ended June 30, 2010. This is primarily due to a net increase in the amount drawn on the Company's revolving credit facility of \$2.6 million. Total borrowings for the six months ended June 30, 2010 under the revolving credit facility were \$21.1 million and total payments on the revolving credit facility in the same period were \$18.5 million. The Company also used approximately \$0.5 million to make scheduled principal payments on its short-term debt obligations. In addition, the Company also used approximately \$0.9 million to repurchase warrants, which was offset by proceeds received from the exercise of warrants to acquire common stock of approximately \$2.4 million.

Cash used in financing activities for the six months ended June 30, 2009 was approximately \$2.7 million. This was primarily due to a net decrease in the amount drawn on the Company's revolving credit facility of \$2.7 million. Total borrowings for the six months ended June 30, 2009 under the revolving credit facility were \$34.6 million and total payments on the revolving credit facility in the same period were \$37.3 million.

#### ***Cash Requirements Related to Operations***

Our principal sources of liquidity have been from cash provided by operating activities and the sales used rental fleet equipment, proceeds from the issuance of debt, and borrowings available under our revolving credit facility. Our principal uses of cash have been to fund operating activities and working capital, purchases of rental fleet equipment and property and equipment and to fund repurchases of the Company's common stock and warrants pursuant to the Company's stock repurchase program, under which we may purchase up to \$12.0 million of the Company's outstanding common stock and warrants. Under the terms of the stock repurchase program, as of June 30, 2010, we may purchase up to an additional \$9.0 million of our common stock and warrants. We anticipate that the above described uses will be the principal demands on our cash in the future.

The amount of our future capital expenditures will depend on a number of factors including general economic conditions, growth prospects and the Company's overall strategy. Proceeds from equipment sold of \$2.8 million during the six months ended June 30, 2010 were partially utilized to fund our capital spending on rental equipment of \$0.5 million and to fund the repurchase of warrants pursuant to the Company's stock repurchase program, which the Company suspended in May 2010 in conjunction with the launching of the cashless exercise warrant offer. In response to changing economic conditions, we believe we have the flexibility to modify our capital expenditures by adjusting them (either up or down) to match our actual performance. As of June 30, 2010, we had \$39.5 million of available borrowings under our revolving credit facility, net of outstanding letters of credit, a reserve for our interest rate swap liability and other reserves.

To service our debt, we will require a significant amount of cash. Our ability to pay interest and principal on our indebtedness will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, some of which are beyond our control. Based on our current level of operations, we believe our cash flow from operations, available cash and available borrowings under the revolving credit facility will be adequate to meet our future liquidity needs for the foreseeable future.

We cannot provide absolute assurance that our future cash flow from operating activities will be sufficient to meet our long-term obligations and commitments. If we are unable to generate sufficient cash flow from operating activities in the future to service our indebtedness and to meet our other commitments, we will be required to adopt one or more alternatives, such as refinancing or restructuring our indebtedness, selling material assets or operations or seeking to raise additional debt or equity capital. Given current economic and market conditions, including the significant disruptions in the global capital markets, we cannot assure investors that any of these actions could be affected on a timely basis or on satisfactory terms or at all, or that these actions would enable us to continue to satisfy our capital requirements. In addition, our existing or future debt agreements, including the indenture governing the revolving credit facility, contain certain restrictive covenants, which may prohibit us from adopting any of these alternatives. Our failure to comply with these covenants could result in an event of default which, if not cured or waived, could result in the accelerations of all of our debt.

## Seasonality

Although we believe our business is not materially impacted by seasonality, the demand for our rental equipment tends to be lower in the winter months. The level of equipment rental activities are directly related to heavy commercial and industrial construction and maintenance activities. Therefore, equipment rental performance will be correlated to the levels of current construction activities. The severity of weather conditions can have a temporary impact on the level of construction activities.

Equipment sales cycles are also subject to some seasonality with the peak selling period during the spring season and extending through the summer. Parts and service activities are less affected by changes in demand caused by seasonality.

## Contractual Obligations

During the six months ended June 30, 2010, there were no material changes outside the ordinary course of our business in our long-term debt, capital lease or purchase obligations or in other long-term liabilities disclosed in our Annual Report on Form 10-K for the year ended December 31.

## Off-Balance Sheet Arrangements

During the six months ended June 30, 2010, there were no material changes in the off-balance sheet arrangements disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009.

## Critical Accounting Policies

Item 7, included in Part II of our Annual Report on Form 10-K for the year ended December 31, 2009, presents the accounting policies and related estimates that we believe are the most critical to understanding our consolidated financial statements, financial condition, and results of operations and cash flows, and which require complex management judgment and assumptions, or involve uncertainties. These include, among other things, revenue recognition, the propriety of our estimated useful life of rental equipment and property and equipment, the adequacy of the allowance for doubtful accounts, income taxes, the potential impairment of long-lived assets including intangible assets and derivative financial instruments.

Information regarding our other significant accounting policies is included in Note 2 to our consolidated financial statements in Item 8 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2009 and in Note 2 to the consolidated financial statements in this Quarterly Report on Form 10-Q.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our earnings are affected by changes in interest rates due to the fact that interest on our revolving credit facility is calculated based upon either LIBOR or the Prime Rate plus an applicable margin. As of June 30, 2010, we had an interest rate swap to effectively fix the interest rate at 4.96% for \$100 million of the \$134.6 million of outstanding borrowings under our senior secured credit facility. The weighted average interest rate in effect on those borrowings at June 30, 2010 was 2.63% excluding the impact of the interest rate swap and 4.39% taking into consideration the swap. A 1.0% increase in the effective interest rate on our variable rate outstanding borrowings not effectively fixed as a result of the interest rate swap at June 30, 2010 would increase our interest expense by approximately \$0.3 million on an annualized basis.

## Item 4. Controls and Procedures

### *Management's Quarterly Evaluation of Disclosure Controls and Procedures*

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit 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 the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure.

Our management, with participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15 (e) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of June 30, 2010, our disclosure controls and procedures are effective to provide reasonable assurance that material information required to be included in our periodic SEC reports 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 the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure.

The design of any system of control is based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated objectives under all future events, no matter how remote, or that the degree of compliance with the policies or procedures may not deteriorate. Because of its inherent limitations, disclosure controls and procedures may not prevent or detect all misstatements. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

#### *Changes in Internal Control over Financial Reporting*

There have been no changes in our internal controls over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that occurred during the six month period ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

From time to time, the Company is party to various legal actions in the normal course of our business. We cannot estimate with certainty our ultimate legal and financial liability with respect to such pending matters. Management believes that the Company is not party to any litigation that, if adversely determined, would have a material adverse effect on our business, financial condition, result of operations or cash flows.

### **Item 1A. Risk Factors**

Part I, Item 1A — "Risk Factors," of our Annual Report on Form 10-K for the year ended December 31, 2009, describes important factors that could materially affect our business, financial condition and/or future results and cause our operating results to differ materially from those indicated, projected or implied by forward-looking statements made in this Quarterly Report or presented elsewhere by management from time to time. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company; additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results and cause our operating results to differ materially from those indicated, projected or implied by forward-looking statements made in this Quarterly Report or presented elsewhere by management from time to time.

There have been no material changes with respect to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. Issuer Purchases of Equity Securities**

In October 2008, the Company's board of directors authorized a stock repurchase program, under which from time to time, in open market transactions at prevailing prices or through privately negotiated transactions as conditions permit. The Company may purchase up to \$12 million of the Company's common stock and publicly-traded warrants of which approximately \$9.0 million remained available at June 30, 2010. Such repurchase plan was publicly announced on October 22, 2008. The Company's stock repurchase program was suspended in May 2010 in conjunction with the launching of the cashless exercise warrant offer.

The following table provides information with respect to the Company's repurchase of warrants during the three months ended June 30, 2010.

Period	Total Number of Warrants Purchased	Average Price Paid per Warrant	Total Number of Warrants Purchased as Part of Repurchase Plan (1)	Maximum Dollar Value of Warrants and/or Common Stock that may Yet be Purchased
April 1, 2010 to April 30, 2010	455,561	\$ 1.73	455,561	\$ 8,969,263
May 1, 2010 to May 31, 2010	-	\$ -	-	\$ 8,969,263
June 1, 2010 to June 30, 2010	-	\$ -	-	-
	455,561	\$ 1.73	455,561	\$ -

(1) In addition to the Warrants purchased for the three months ended June 30, 2010 pursuant to the repurchase plan, the Company previously purchased a total of 2,421,236 shares of its common stock including 63,500 shares repurchased pursuant to the repurchase plan and 2,357,736 shares previously held by shareholders who voted against the acquisition of Holdings and exercised their conversion rights, and 1,806,063 warrants pursuant to the repurchase plan.

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Reserved**

**Item 5. Other Information**

None.

**Item 6. Exhibits**

A. Exhibits

- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURES**

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

ESSEX RENTAL CORP.

Dated: July 30, 2010

By:           /s/ Ronald Schad            
Ronald Schad  
Chief Executive Officer  
(Principal Executive Officer)

Dated: July 30, 2010

By           /s/ Martin Kroll            
Martin Kroll  
Chief Financial Officer  
(Principal Financial and Accounting Officer)





