General Finance CORP
Form 10-Q
February 11, 2011

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U. S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended December 31, 2010

OR

o **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 001-32845

(Exact Name of Registrant as Specified in its Charter)

Delaware	**32-0163571**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

39 East Union Street
Pasadena, CA 91103
(Address of Principal Executive Offices)
(626) 584-9722
(Registrant s Telephone Number, Including Area Code)

Indicate by check whether the registrant: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 þ No o

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 o No o

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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

Yes o No þ

State the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 22,013,299 shares outstanding as of January 31, 2011.

GENERAL FINANCE CORPORATION
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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

GENERAL FINANCE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In thousands, except share and per share data)

	June 30, 2010	December 31, 2010 (Unaudited)
Assets		
Cash and cash equivalents	$ 4,786	$
Trade and other receivables, net of allowance for doubtful accounts of $2,328 and $2,143 at June 30, 2010 and December 31, 2010, respectively	25,667	26,298
Income taxes receivable	1,071	
Subscription receivables	1,211	
Inventories	19,063	25,503
Prepaid expenses and other	2,206	3,333
Lease receivables	1,782	1,914
Property, plant and equipment, net	10,182	10,795
Lease fleet, net	188,410	209,147
Goodwill	67,919	73,391
Intangible assets, net	24,583	26,046
Total assets	$ 346,880	$ 376,427
Liabilities		
Trade payables and accrued liabilities	$ 25,246	$ 28,830
Unearned revenue and advance payments	9,468	8,776
Senior and other debt	186,183	198,545
Deferred tax liabilities	13,409	14,832
Total liabilities	234,306	250,983
Commitments and contingencies (Note 8)		
Redeemable noncontrolling interest (Note 8)	10,840	12,798
Stockholders equity		
Cumulative preferred stock, $.0001 par value: 1,000,000 shares authorized; 26,000 shares issued and outstanding (in series) and liquidation value ($1,438) at June 30, 2010 and December 31, 2010	1,395	1,395
Common stock, $.0001 par value: 100,000,000 shares authorized; 22,023,299 and 22,013,299 shares outstanding at June 30, 2010 and December 31, 2010, respectively	2	2
Additional paid-in capital	111,783	112,050

Subscription receivables		(100)		(85)
Accumulated other comprehensive income (loss)		(1,571)		7,668
Accumulated deficit		(9,775)		(8,384)
Total stockholders equity		101,734		112,646
Total liabilities and stockholders equity	$	346,880	$	376,427

The accompanying notes are an integral part of these condensed consolidated financial statements.

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GENERAL FINANCE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(In thousands, except share and per share data)
(Unaudited)

	Quarter Ended December 31,		Six Months Ended December 31,	
	2009	2010	2009	2010
Revenues				
Sales	$ 19,288	$ 22,161	$ 35,901	$ 45,550
Leasing	19,858	22,736	38,464	42,812
	39,146	44,897	74,365	88,362
Costs and expenses				
Cost of sales (exclusive of the items shown separately below)	15,029	16,646	27,554	34,256
Direct costs of leasing operations	6,810	8,469	12,992	15,967
Selling and general expenses	9,572	10,577	18,752	20,592
Depreciation and amortization	5,094	4,860	10,351	9,532
Operating income	2,641	4,345	4,716	8,015
Interest income	63	125	122	230
Interest expense	(4,132)	(4,351)	(7,839)	(8,632)
Foreign currency exchange gain and other	545	2,038	3,138	4,465
	(3,524)	(2,188)	(4,579)	(3,937)
Income (loss) before provision for income taxes and noncontrolling interest	(883)	2,157	137	4,078
Provision (benefit) for income taxes	(322)	815	50	1,541
Net income (loss)	(561)	1,342	87	2,537
Noncontrolling interest	(573)	(573)	(1,146)	(1,146)
Preferred stock dividends	(42)	(44)	(83)	(87)
Net income (loss) attributable to common stockholders	$ (1,176)	$ 725	$ (1,142)	$ 1,304

Net income (loss) per common share:				
Basic	$ (0.07)	$ 0.03	$ (0.06)	$ 0.06
Diluted	(0.07)	0.03	(0.06)	0.06
Weighted average shares outstanding:				
Basic	17,826,052	22,013,299	17,826,052	22,013,299
Diluted	17,826,052	22,190,999	17,826,052	22,054,977

The accompanying notes are an integral part of these condensed consolidated financial statements.

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GENERAL FINANCE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statement of Stockholders Equity and Comprehensive Income (Loss)
(In thousands, except share and share data)
(Unaudited)

	Cumulative Preferred Stock		Common Stock		Additional		Other Comprehensive Income		Total Stockholders
	Shares	Amount	Shares	Amount	Paid-In Capital	Subscription Receivables	(Loss)	Accumulated Deficit	Equity
Balance at June 30, 2010	26,000	$ 1,395	22,023,299	$ 2	$ 111,783	$ (100)	$ (1,571)	$ (9,775)	$ 101,734
Cancellation of subscription receivables			(10,000)		(15)	15			
Share-based compensation					369				369
Preferred stock dividends					(87)				(87)
Net income								2,537	2,537
Noncontrolling interest								(1,146)	(1,146)
Cumulative translation adjustments							9,239		9,239
Total comprehensive income									10,630
Balance at December 31, 2010	26,000	$ 1,395	22,013,299	$ 2	$ 112,050	$ (85)	$ 7,668	$ (8,384)	$ 112,646

Other comprehensive income:
Cumulative translation adjustments totaled $1,199, $5,259 and $2,776, which resulted in Total Comprehensive Income of $65, $4,200 and $3,545 for the quarter and six months ended December 31, 2009 and the quarter ended December 31, 2010, respectively.

The accompanying notes are an integral part of these condensed consolidated financial statements.

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GENERAL FINANCE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended December 31,	
	2009	**2010**
Net cash provided by operating activities (Note 9)	$ 12,554	$ 7,767
Cash flows from investing activities:		
Business acquisitions, net of cash acquired		(762)
Proceeds from sales of property, plant and equipment	31	71
Purchases of property, plant and equipment	(896)	(1,057)
Proceeds from sales of lease fleet	11,975	11,004
Purchases of lease fleet	(11,054)	(18,078)
Net cash provided (used) by investing activities	56	(8,822)
Cash flows from financing activities:		
Proceeds from (repayments on) capital leasing activities	(17)	1,197
Repayments on senior and other debt borrowings, net	(15,161)	(2,774)
Deferred financing costs		(1,285)
Proceeds from issuances of preferred stock	50	
Preferred stock dividends	(83)	(87)
Net cash used by financing activities	(15,211)	(2,949)
Net decrease in cash	(2,601)	(4,004)
Cash and equivalents at beginning of period	3,346	4,786
The effect of foreign currency translation on cash	(745)	(782)
Cash and equivalents at end of period	$	$

Non-cash investing and financing activities:
On October 1, 2010, the Company issued redeemable preferred stock of $100 as part of the consideration for a business acquisition (see Note 1).

The accompanying notes are an integral part of these condensed consolidated financial statements.

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GENERAL FINANCE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Organization and Business Operations

Organization

General Finance Corporation (GFN) was incorporated in Delaware in October 2005. References to the Company in these Notes are to GFN and its consolidated subsidiaries. These subsidiaries include GFN U.S. Australasia Holdings, Inc., a Delaware corporation (GFN U.S.); GFN North America Corp., a Delaware corporation (GFNNA); GFN Mobile Storage Inc., a Delaware corporation (GFNMS); GFN Australasia Holdings Pty Ltd., an Australian corporation (GFN Holdings); GFN Australasia Finance Pty Ltd, an Australian corporation (GFN Finance); RWA Holdings Pty Limited (RWA), an Australian corporation, and its subsidiaries (collectively, Royal Wolf); and Pac-Van, Inc., an Indiana corporation (combined with GFNMS, Pac-Van).

Acquisition of Royal Wolf

On September 13, 2007 (September 14 in Australia), the Company completed the acquisition of Royal Wolf through the acquisition of all of the outstanding shares of RWA. Based upon the actual exchange rate of one Australian dollar to $0.8407 U.S. dollar realized in connection with payments made upon completion of the acquisition, the purchase price paid to the sellers for the RWA shares was $64.3 million. The Company paid the purchase price by a combination of cash, the issuance to Bison Capital Australia, L.P., (Bison Capital), one of the sellers, of shares of common stock of GFN U.S. and the issuance of a note to Bison Capital. As a result of this structure, the Company owns 86.2% of the outstanding capital stock of GFN U.S. and Bison Capital owns 13.8% of the outstanding capital stock of GFN U.S. Royal Wolf leases and sells storage containers, portable container buildings and freight containers in Australia and New Zealand, which is considered geographically by the Company to be the Asia-Pacific area.

Acquisition of Pac-Van

On October 1, 2008, the Company completed its acquisition of Pac-Van through a merger with Mobile Office Acquisition Corp. (MOAC), the parent of Pac-Van, and the Company s wholly-owned subsidiary formed in July 2008, GFNNA. The Company, in addition to assuming Pac-Van s senior and other debt, paid the purchase price to the stockholders of MOAC by a combination of cash, GFN restricted common stock and a 20-month subordinated promissory note. Pac-Van leases and sells modular buildings, mobile offices and storage containers in the United States.

Acquisition in the Current Fiscal Year

On October 1, 2010, the Company, through Pac-Van, purchased the business of Advanced Mobile Storage (AMS) for $862,000; which included the issuance of 100 shares of redeemable preferred stock (see Note 3). The total purchase price has been allocated to tangible (lease fleet) and intangible (customer base and non-compete agreement) assets acquired, based on their estimated fair market values, and totaled $788,000 and $160,000, respectively; less trade payables and accrued liabilities assumed of $86,000.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with United States generally accepted accounting principles (U.S. GAAP) applicable to interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (which include all significant normal and recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for all periods presented have been made. The accompanying results of operations are not necessarily indicative of the operating results that may be expected for the entire fiscal year ending June 30, 2011. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes thereto of the Company, which are included in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2010 filed with the Securities and Exchange Commission (SEC).

Certain reclassifications have been made to conform to the current period presentation.

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GENERAL FINANCE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Unless otherwise indicated, references to FY 2010 and FY 2011 are to the six months ended December 31, 2009 and 2010, respectively.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Foreign Currency Translation

The Company s functional currency for its operations in the Asia-Pacific area is the local currency, which is primarily the Australian (AUS) dollar. All adjustments resulting from the translation of the accompanying consolidated financial statements from the functional currency into reporting currency are recorded as a component of stockholders equity in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 830, *Foreign Currency Matters*. All assets and liabilities are translated at the rates in effect at the balance sheet dates; and revenues, expenses, gains and losses are translated using the average exchange rates during the periods. Transactions in foreign currencies are translated at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate prevailing at that date. Foreign exchange differences arising on translation are recognized in the statement of operations. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates prevailing at the dates the fair value was determined.

Segment Information

FASB ASC Topic 280, *Segment Reporting*, establishes standards for the way companies report information about operating segments in annual financial statements. It also establishes standards for related disclosures about products and services, geographic areas and major customers. Based on the provisions of FASB ASC Topic 280 and the manner in which the chief operating decision maker analyzes the business, the Company has determined it has two separately reportable geographic and operating segments, North America (Pac-Van, including corporate headquarters) and the Asia-Pacific area (Royal Wolf).

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Inventories

Inventories are stated at the lower of cost or market (net realizable value). Inventories consist primarily of containers, modular buildings and mobile offices held for sale or lease and are comprised of the following (in thousands):

	June 30, 2010	December 31, 2010
Finished goods	$ 18,840	$ 25,219
Work in progress	223	284
	$ 19,063	$ 25,503

Derivative Financial Instruments

The Company may use derivative financial instruments to hedge its exposure to foreign currency and interest rate risks arising from operating, financing and investing activities. The Company does not hold or issue derivative

financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognized immediately in the statement of operations.

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GENERAL FINANCE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Property, Plant and Equipment

Property, plant and equipment consist of the following (in thousands):

	Estimated Useful Life	June 30, 2010	December 31, 2010
Land		$ 1,599	$ 1,765
Building	40 years	247	273
Transportation and plant equipment (including capital lease assets)	3 10 years	11,407	13,702
Furniture, fixtures and office equipment	3 10 years	2,865	3,095
		16,118	18,835
Less accumulated depreciation and amortization		(5,936)	(8,040)
		$ 10,182	$ 10,795

Lease Fleet

The Company has a fleet of storage containers, mobile offices, modular buildings and steps that it primarily leases to customers under operating lease agreements with varying terms. The lease fleet (or lease or rental equipment) is recorded at cost and depreciated on the straight-line basis over the estimated useful life (5 20 years), after the date the units are put in service, and are depreciated down to their estimated residual values (up to 70% of cost). In the opinion of management, estimated residual values are at or below net realizable values. The Company periodically reviews these depreciation policies in light of various factors, including the practices of the larger competitors in the industry, and its own historical experience.

Units in the lease fleet are also available for sale. The cost of sales of a unit in the lease fleet is recognized at the carrying amount at the date of sale.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recorded for temporary differences between the financial reporting basis and income tax basis of assets and liabilities at the balance sheet date multiplied by the applicable tax rates. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is recorded for the amount of income tax payable or refundable for the period increased or decreased by the change in deferred tax assets and liabilities during the period.

The Company files U.S. Federal tax returns, multiple U.S. state (and state franchise) tax returns and Australian and New Zealand tax returns. For U.S. Federal tax purposes, all periods subsequent to June 30, 2008 are subject to examination by the U.S. Internal Revenue Service (IRS). The Company believes that its income tax filing positions and deductions would be sustained on audit and does not anticipate any adjustments that would result in a material change. Therefore, no reserves for uncertain income tax positions have been recorded. In addition, the Company does not anticipate that the total amount of unrecognized tax benefit related to any particular tax position will change significantly within the next 12 months.

The Company s policy for recording interest and penalties, if any, will be to record such items as a component of income taxes.

GENERAL FINANCE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Net Income per Common Share

Basic net income per common share is computed by dividing net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the periods. Diluted net income per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. The potential dilutive securities the Company has outstanding are warrants and stock options. The following is a reconciliation of weighted average shares outstanding used in calculating earnings per common share:

	Quarter Ended December 31,		Six Months Ended December 31,	
	2009	2010	2009	2010
Basic	17,826,052	22,013,299	17,826,052	22,013,299
Assumed exercise of warrants				
Assumed exercise of stock options		177,700		41,678
Diluted	17,826,052	22,190,999	17,826,052	22,054,977

Potential common stock equivalents (consisting of units, warrants and stock options) totaling 8,254,290 for the quarter and six months ended December 31, 2009 and 5,331,493 and 5,467,515 for the quarter and six months ended December 31, 2010, respectively, have been excluded from the computation of diluted earnings per share because the effect is anti-dilutive.

Recently Issued and Adopted Accounting Pronouncements

Effective July 1, 2009, the FASB ASC became the single official source of authoritative, nongovernmental U.S. GAAP. The historical U.S. GAAP hierarchy was eliminated and the ASC became the only level of authoritative U.S. GAAP, other than guidance issued by the SEC. The Company s accounting policies were not affected by the conversion to ASC. However, references to specific accounting standards in the notes to our consolidated financial statements have been changed to refer to the appropriate section of the ASC.

In October 2009, the FASB issued an accounting standards update to ASC Topic 605, *Revenue Recognition*, that impacts the determination of when the individual products or services (deliverables) included in a multiple-element arrangement may be treated as separate units of accounting. These new standards are effective for arrangements entered into subsequent to June 30, 2011 and the Company does not expect the adoption will have a material impact on its consolidated financial position or results of operations.

In July 2010, the FASB issued an accounting standards update to ASC Topic 310, *Receivables*, that requires disclosures about the credit quality of financing receivables (excluding short-term trade accounts receivable or receivables measured at fair value or lower of cost or fair value) and the allowance for credit losses. The disclosure requirements are effective for the periods ending on or after December 15, 2010 and its adoption did not have any impact on the Company s consolidated financial position or results of operations as it does not have receivables that met the definition of financing receivables at December 31, 2010.

In December 2010, the FASB issued an accounting standards update to ASC Topic 805, *Business Combinations*, that requires public companies that enter into business combinations that are material on an individual or aggregate basis, and present comparative financial statements, to disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The update also expands the supplemental pro forma disclosures under ASC Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. These new standards are effective for business combinations entered into subsequent to June 30, 2011 and the Company does not expect the

adoption to have any impact on its consolidated financial position or results of operations.
In August 2010, the FASB, as result of a joint project with the International Accounting Standards Board to simplify lease accounting and improve the quality of and comparability of financial information for users, published a proposal that would change the accounting and financial reporting for both lessee and lessor under ASC Topic 840, *Leases*. The proposal would effectively eliminate off-balance sheet accounting for most of the operating leases of lessees and would apply one of two methods to lease accounting for lessors, depending on whether the lessor retains exposure to significant risks or benefits of the underlying assets. Comments on the proposal were due by December 15, 2010 and public roundtable meetings were held in December 2010 and January 2011. The FASB expects to issue the final standards during the second calendar quarter of 2011, with the effective date to be determined. The Company believes that the final standards, if issued in substantially the same form as the published proposal, would have a material effect in the presentation of its consolidated financial position and results of operations.

GENERAL FINANCE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 3. Equity Transactions

Warrants Issued in IPO

In connection with its initial public offering (IPO), the Company sold to the representative of the underwriters for $100 an option to purchase 750,000 units for $10.00 per unit. Each unit consisted of one share of common stock and one warrant and each warrant entitles the holder to purchase from the Company one share of common stock at an exercise price of $7.20. This option may be exercised on a cashless basis and expires on April 5, 2011.

Cumulative Preferred Stock

The Company is conducting private placements of Series A 12.5% Cumulative Preferred Stock, par value $0.0001 per share and liquidation preference of $50 per share (Series A Preferred Stock); and Series B 8% Cumulative Preferred Stock, par value of $0.0001 per share and liquidation value of $1,000 per share (Series B Preferred Stock). The Series B Preferred Stock is offered primarily in connection with business combinations.

The Series A Preferred Stock and the Series B Preferred Stock are referred to collectively as the Cumulative Preferred Stock.

The Cumulative Preferred Stock is not convertible into GFN common stock, has no voting rights, except as required by Delaware law, and is not redeemable prior to February 1, 2014; at which time it may be redeemed at any time, in whole or in part, at the Company s option. Holders of the Cumulative Preferred Stock are entitled to receive, when declared by the Company s Board of Directors, annual dividends payable quarterly in arrears on the 31st day of January, July and October of each year and the 30th day of April of each year. In the event of any liquidation or winding up of the Company, the holders of the Cumulative Preferred Stock will have preference to holders of common stock; with the holders of the Series A Preferred Stock having preference over holders of the Series B Preferred Stock. The Company has agreed to register for public trading the Cumulative Preferred Stock no later than one year from issuance.

In connection with the acquisition of AMS (see Note 1), the Company issued 100 shares of Series B Preferred Stock with a liquidation value of $100,000 that is redeemable in three annual installments from the date of acquisition. As a result, this issuance is classified as a liability in the consolidated balance sheet under the caption Senior and other debt.

As of December 31, 2010, since issuance, dividends paid or payable totaled $299,000 and $18,000 for the Series A Preferred Stock and Series B Preferred Stock, respectively. The characterization of dividends to the recipients for Federal income tax purposes is made based upon the earnings and profits of the Company, as defined by the Internal Revenue Code.

Rights Offering

On June 25, 2010, the Company completed a rights offering to stockholders of record as of May 14, 2010. The offering entitled holders of the rights to purchase units at $1.50 per unit, with each unit consisting of one share of GFN common stock and a three-year warrant to purchase 0.5 additional shares of GFN common stock at an exercise price of $4.00 per share. The Company s rights offering resulted in, after deducting direct offering costs and subscription receivables, net proceeds of $5,908,000.

In FY 2011, subscription receivables for 10,000 units were cancelled and, as a result, the Company now reports that it sold a total of 4,187,247 shares of common stock and 4,187,247 warrants to acquire an additional 2,095,623 shares of common stock at an exercise price of $4.00 per share. As of December 31, 2010, subscription receivables for 56,666 units totaled $85,000.

The Company used $4,800,000 of the net proceeds from the rights offering in the refinancing at Pac-Van in FY 2011 (see Note 4).

Note 4. Senior and Other Debt

The following is a discussion of the Company s significant senior and other debt.

Royal Wolf Senior Credit Facility and Subordinated Notes

Royal Wolf has a senior credit facility, as amended, with Australia and New Zealand Banking Group Limited (ANZ), the substantial portion of which matures on September 14, 2012. The facility is subject to annual reviews by ANZ and is secured by substantially all of the assets of the Company s Australian and New Zealand subsidiaries. The aggregate ANZ facility is comprised of various sub-facilities, not all of which provide additional borrowing availability. As of December 31, 2010, based upon the exchange rate of one Australian dollar to $1.0163 U.S. dollar and one New Zealand dollar to $0.7569 Australian dollar, borrowings and availability under the ANZ credit facility totaled $91,471,000 (AUS$90,004,000) and $2,466,000 (AUS$2,426,000), respectively. Principal payments are required to be a minimum of AUS$1,625,000 ($1,651,000) per quarter, with an installment equal to 80% of Free Cash Flow, as defined, paid within 60 days from the end of each fiscal year. Approximately $62,556,000 (AUS$61,552,000) and $9,058,000 (AUS$8,913,000) of the borrowings under the ANZ credit facility at December 31, 2010 bear interest at ANZ s prime rate, plus 3.15% per annum and 4.15% per annum, respectively; with the remaining borrowings bearing interest at varying rates. As of December 31, 2010, the weighted-average interest rate was 8.4%; which includes the effect of interest rate swap contracts and options (caps).

GENERAL FINANCE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The ANZ senior credit facility is subject to certain covenants, including compliance with specified consolidated senior and total interest coverage and senior and total debt ratios, as defined, for each financial quarter based on earnings before interest, income taxes, depreciation and amortization and other non-operating costs (EBITDA), as defined, on a year-to-date or trailing twelve-month (TTM) basis; and restrictions on the payment of dividends, loans and payments to affiliates and granting of new security interests on the assets of any of the entities who are parties to the senior credit facility. A change of control in any of GFN Holdings or its direct and indirect subsidiaries without the prior written consent of ANZ constitutes an event of default under the facility. The ANZ senior credit facility further provides, among other things, that the $5,500,000 due Bison Capital (see below) must be paid by a capital infusion from GFN and that capital expenditures of property, plant and equipment over $2,033,000 (AUS$2,000,000) in the year ending June 30, 2011 be approved by ANZ.

On September 13, 2007, in conjunction with the closing of the acquisition of Royal Wolf, the Company entered into a securities purchase agreement with Bison Capital, pursuant to which the Company issued and sold to Bison Capital, at par, a secured senior subordinated promissory note in the principal amount of $16,816,000 (the Bison Note). Pursuant to the securities purchase agreement, the Company issued to Bison Capital warrants to purchase 500,000 shares of common stock of GFN. The warrants issued to Bison Capital represent the right to purchase 500,000 shares of GFN s common stock at an initial exercise price of $8.00 per share, subject to adjustment for stock splits and stock dividends. Unexercised warrants will expire September 13, 2014. The Bison Note bears interest at the annual rate of 13.5%, payable quarterly in arrears, and matures on March 13, 2013. The Company may extend the maturity date by one year, provided that it is not then in default. The Company may prepay the Bison Note at a declining price of 101% of par prior to September 13, 2011 and 100% of par thereafter. The maturity of the Bison Note may be accelerated upon an event of default or upon a change of control of GFN Finance or any of its subsidiaries. Payment of the Bison Note is secured by a lien on all or substantially all of the assets of GFN Finance and its subsidiaries, subordinated and subject to the intercreditor agreement with ANZ. If, during the 66-month period ending on the scheduled maturity date, GFN s common stock has not traded above $10 per share for any 20 consecutive trading days on which the average daily trading volume was at least 30,000 shares (ignoring any daily trading volume above 100,000 shares), upon demand by Bison Capital, the Company will pay Bison Capital on the scheduled maturity date a premium of $1,000,000, less any gains realized by Bison Capital from any prior sale of the warrants and warrant shares. This premium is also payable upon any acceleration of the Bison Note due to an event of default or change of control of GFN Finance or any of its subsidiaries. As a condition to receiving this premium, Bison Capital must surrender for cancellation any remaining warrants and warrant shares.

On May 1, 2008, the Company issued and sold to Bison Capital a second secured senior subordinated promissory note in the principal amount of $5,500,000 on terms comparable to the original Bison Note, except that the maturity of this second note is July 1, 2011 and must be paid by a capital infusion from GFN (see above). Collectively, these two notes are referred to as the Bison Notes. At December 31, 2010, the principal balance of the Bison Notes was $21,796,000. The Bison Notes have covenants that require the maintenance of minimum EBITDA levels, as defined, and a total debt ratio based on a TTM EBITDA basis; as well as restrictions on capital expenditures.

Pac-Van Senior Credit Facility

Prior to July 16, 2010, Pac-Van had a senior credit facility, as amended, with a syndicate of four financial institutions led by Bank of America, N.A. (BOA), as administrative and collateral agent, and a $25,000,000 senior subordinated secured note payable to SPV Capital Funding, L.L.C. (SPV). On July 16, 2010, the Company entered into several agreements relating to: (a) a new $85,000,000 senior secured revolving credit facility at Pac-Van with a syndicate led by PNC Bank, National Association (PNC) and including Wells Fargo Bank, National Association and Union Bank, N.A. (UB) (the PNC Credit Facility); and (b) a new $15,000,000 senior subordinated note with Laminar Direct Capital, L.L.C. (Laminar) issued by GFN (the Laminar Note). Borrowings under the PNC Credit Facility and proceeds from both the issuance of the Laminar Note and the Company s rights offering completed on June 25, 2010 (see Note 3) were used to prepay in full all borrowings under the BOA credit facility and the $25,000,000 senior subordinated

secured note payable to SPV.

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Under the terms of the PNC Credit Facility, Pac-Van may borrow up to $85,000,000, subject to the terms of a borrowing base, as defined, and will accrue interest, at Pac-Van s option, either at the prime rate plus 2.75%, or the Eurodollar rate plus 3.75%. The PNC Credit Facility also provides for the issuance of irrevocable standby letters of credit in amounts totaling up to $5,000,000, contains certain financial covenants (which are less restrictive than those under the BOA credit facility), including fixed charge coverage ratios, senior leverage ratios and lease fleet utilization ratios; and also includes customary negative and other covenants, including events of default relating to a change of control, as defined, at GFN, GFNNA (which has guaranteed the repayment of all outstanding borrowings and obligations of the PNC Credit Facility) and Pac-Van or upon the cessation of involvement of Ronald F. Valenta as a director or officer in the operations and management of GFN, GFNNA or Pac-Van.

The PNC Credit Facility matures on January 16, 2013, at which time all amounts borrowed must be repaid, but Pac-Van has the right to prepay loans in whole or in part at any time, provided that Pac-Van will be required to pay PNC a prepayment fee of $700,000 if it prepays the loans in full prior to July 16, 2011 and to pay PNC a prepayment fee of $350,000 if it prepays the loans in full after July 16, 2011 but prior to July 16, 2012. At December 31, 2010, borrowings and availability under the PNC Credit Facility totaled $68,571,000 and $8,881,000, respectively, and the weighted-average interest rate was 4.1%.

The repayment of borrowings under the PNC Credit Facility is secured by substantially all of the assets of Pac-Van and by a limited guaranty by Ronald F. Valenta and Lydia D. Valenta (the Valenta Limited Guaranty). Pursuant to the Valenta Limited Guaranty, the Valentas guaranteed $10,000,000 of borrowings from July 16, 2010 until June 30, 2011, $8,000,000 of borrowings from July 1, 2011 until June 30, 2012 and $6,000,000 of borrowings from July 1, 2012 until January 16, 2013. The amounts guaranteed by the Valentas will only be reduced if no event of default has occurred under the PNC Credit Facility and if Pac-Van has delivered to PNC the certificates necessary to demonstrate compliance by Pac-Van with the financial covenants at the date of each scheduled reduction. In consideration for entering into the Valenta Limited Guaranty, Pac-Van will pay the Valentas a fee equal to 1.2% of the lower of outstanding borrowings or the guaranty amount. A guarantee fee of $120,000 for the first year was paid at or near the closing of the PNC Credit Facility and, commencing with the first anniversary from the closing date, the guaranty fee will be paid in advance at a rate of 0.3% per quarter, so long as Pac-Van remains in compliance with the covenants of the PNC Credit Facility. In addition, the Valentas entered into a pledge and security agreement for the benefit of PNC whereby the Valentas pledged a deposit account maintained by PNC, and all interest accrued thereon, to secure the repayment of all loans and the performance of all obligations under the PNC Credit Facility.

Laminar Note

The $15,000,000 Laminar Note accrues interest at the floating rate of LIBOR plus 10.0% per annum, provided that LIBOR shall be not less than 3.0%, and is payable monthly in arrears commencing on August 1, 2010. The Laminar Note matures on July 16, 2013, at which time all amounts borrowed must be repaid; but it may be prepaid by GFN in part or in full at any time before the maturity date without penalty and by Pac-Van, upon prior written notice, subject to the terms of the intercreditor agreement among Pac-Van, GFNNA, PNC and Laminar.

The Laminar Note contains certain financial covenants, including a consolidated funded indebtedness-to-consolidated EBITDA leverage ratio, a minimum consolidated EBITDA covenant for the four most recently completed calendar quarters of not less than $28,000,000; and customary negative and other covenants, including events of default relating to a change of control, as defined, at GFN, GFNNA and Pac-Van (both of which have guaranteed the repayment of all outstanding borrowings and obligations of the Laminar Note) and covenants which limit the ability of GFNNA and Pac-Van to sell assets, enter into acquisitions and incur additional indebtedness. In addition, the terms of the Laminar Note prohibit GFNNA and Pac-Van from extending the maturity of the PNC Credit Facility to a date later than April 16, 2013, increasing the maximum indebtedness above $93,500,000 without the prior written consent of Laminar, entering into interest rate increases for indebtedness and from undertaking certain other actions.

Other

The Company has a credit agreement at GFN, as amended, with UB for a $1,000,000 credit facility. Borrowings or advances under this facility bear interest at UB s Reference Rate (which approximates the prime rate) and are due and payable at the earlier of 60 days from the advance date or the facility maturity date of March 31, 2011. The facility is guaranteed by GFN U.S. and requires the maintenance of certain quarterly and year-end financial reporting covenants. As of December 31, 2010, there were no borrowings outstanding under the UB credit facility.

Other debt (including redeemable preferred stock see Note 3) totaled $1,707,000 at December 31, 2010.

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Loan Covenant Compliance

The economic downturn in the U.S., particularly in the construction-related industries, and, until recently, the global economy in general, have adversely affected the Company s operating results. To offset this adverse effect, the Company undertook cost-reduction and other measures to reduce its indebtedness and continue complying with the financial loan covenants of its senior lenders. In FY 2011, Pac-Van refinanced the BOA senior credit facility and subordinated note due SPV (see above). This refinancing resulted in the establishment of less restrictive covenants through a new senior credit facility led by PNC. At December 31, 2010, the Company was in compliance with the financial covenants under its senior credit facilities and senior subordinated notes. In the event of noncompliance, there is no assurance that the senior lenders would consent to an amendment or waiver; or that such consent would not be conditioned upon the receipt of a cash payment, revised principal payout terms, increased interest rates, or restrictions in the expansion of the credit facilities, or that our senior lenders would not exercise rights that would be available to them, including, among other things, demanding payment of outstanding borrowings.

Note 5. Financial Instruments

Fair Value Measurements

The Company adopted what is now codified as FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, effective July 1, 2008. FASB ASC Topic 820 defines fair value as the price that would be received from selling 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, FASB ASC Topic 820 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 for identical assets or liabilities;

Level 2 Observable inputs, other than Level 1 inputs 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.

Exposure to credit, interest rate and currency risks arises in the normal course of the Company s business. The Company may use derivative financial instruments to hedge exposure to fluctuations in foreign exchange rates and interest rates. The Company s swap contracts and options (caps) and forward-exchange contracts are not traded on a market exchange; therefore, the fair values are determined using valuation models that include assumptions about yield curve at the reporting dates as well as counter-party credit risk. The Company has consistently applied these calculation techniques to all periods presented.

Derivative instruments measured at fair value and their classification on the consolidated balances sheets and consolidated statements of operations are as follows (in thousands):

Type of Derivative Contract	Balance Sheet Classification	Derivative Fair Value (Level 2) June 30, 2010	December 31, 2010
Swap Contracts and Options (Caps)	Trade payables and accrued liabilities	$ (1,222)	$ (932)
Forward-Exchange Contracts	Trade and other receivables	247	
Forward-Exchange Contracts	Trade payables and accrued liabilities		(134)

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Type of Derivative Contract	Statement of Operations Classification	Quarter Ended December 31, 2009	Quarter Ended December 31, 2010	Six Months Ended December 31, 2009	Six Months Ended December 31, 2010
Swap Contracts and Options (Caps)	Unrealized gain included in interest expense	$ 40	$ 228	$ 181	$ 478
Forward-Exchange Contracts	Foreign currency exchange gain (loss) and other	552	529	761	(336)

Fair Value of Financial Instruments

Under the provisions of FASB ASC Topic 825, *Financial Instruments,* the carrying value of the Company s financial instruments, which include cash and cash equivalents, net receivables, trade payables and accrued liabilities, borrowings under the senior credit facilities, the subordinated notes, interest rate swap and forward exchange contracts and commercial bills; approximate fair value due to current market conditions, maturity dates and other factors.

Interest Rate Swap Contracts

The Company s exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations. The Company s policy is to manage its interest expense by using a mix of fixed and variable rate debt.

To manage this mix in a cost-efficient manner, the Company enters into interest rate swaps and interest rate options, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps and options are designated to hedge changes in the interest rate of a portion of the ANZ outstanding borrowings. The Company believes that financial instruments designated as interest rate hedges are highly effective. However, documentation of such, as required by FASB ASC Topic 815**,** *Derivatives and Hedging,* does not exist. Therefore, all movements in the fair values of these hedges are reported in the statement of operations in the period in which fair values change.

The Company s interest rate swap and option (cap) contracts are not traded on a market exchange; therefore, the fair values are determined using valuation models which include assumptions about the interest rate yield curve at the reporting dates (Level 2 fair value measurement). As of June 30, 2010 and December 31, 2010, there were four open interest rate swap contracts and three open interest rate option (cap) contracts, as follows (dollars in thousands):

	June 30, 2010				December 31, 2010			
	Swap		Option (Cap)		Swap		Option (Cap)	
Notional amounts	$ 23,260		$ 13,457		$ 27,339		$ 16,324	
Fixed/Strike Rates	7.19%	8.22%	7.19%	8.22%	7.19%	8.22%	7.19%	8.22%
Floating Rates	6.33%	8.12%	6.33%	8.12%	6.38%	8.24%	6.38%	8.24%
Fair Value of Combined Contracts	$ (1,235)		$ 13		$ (937)		$ 5	

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Foreign Currency Risk

The Company has transactional currency exposures. Such exposure arises from sales or purchases in currencies other than the functional currency. The currency giving rise to this risk is primarily U.S. dollars. Royal Wolf has a bank account denominated in U.S. dollars into which a small number of customers pay their debts. This is a natural hedge against fluctuations in the exchange rate. The funds are then used to pay suppliers, avoiding the need to convert to Australian dollars. Royal Wolf uses forward currency contracts and options to eliminate the currency exposures on the majority of its transactions denominated in foreign currencies, either by transaction if the amount is significant, or on a general cash flow hedge basis. The forward currency contracts and options are always in the same currency as the hedged item. The Company believes that financial instruments designated as foreign currency hedges are highly effective. However documentation of such as required by ASC Topic 815 does not exist. Therefore, all movements in the fair values of these hedges are reported in the statement of operations in the period in which fair values change. As of June 30, 2010, there were 15 open forward exchange contracts and three open currency option contracts; and, as of December 31, 2010, there were six open forward exchange contracts, as follows (dollars in thousands):

	June 30, 2010		December 31, 2010	
	Forward Exchange	Currency Option	Forward Exchange	Currency Option
Notional amounts	$ 7,018	$ 9,164	$ 2,073	$
Exchange/Strike Rates (AUD to USD)	0.7005 0.8960	0.7000 0.8310	0.8762 0.9586	
Fair Value of Combined Contracts	$ 149	$ 98	$ (134)	$

The Company also has certain U.S. dollar-denominated debt at Royal Wolf, including intercompany borrowings, which are remeasured at each financial reporting date with the impact of the remeasurement being recorded in our consolidated statements of operations. Unrealized gains and losses resulting from such remeasurement due to changes in the Australian exchange rate to the U.S. dollar could have significant impact in the Company s reported results of operations, as well as any realized gains and losses from the payments on such U.S. dollar-denominated debt and intercompany borrowings. In FY 2010 and FY 2011, net unrealized and realized foreign exchange gains totaled $1,963,000 and $408,000, and $4,514,000 and $288,000, respectively.

Note 6. Related Party Transactions

Effective January 31, 2008, the Company entered into a lease with an affiliate of Ronald F. Valenta, a director and the chief executive officer of the Company, for its new corporate headquarters in Pasadena, California. The rent is $7,393 per month, effective March 1, 2009, plus allocated charges for common area maintenance, real property taxes and insurance, for approximately 3,000 square feet of office space. The term of the lease is five years, with two five-year renewal options, and the rent is adjusted yearly based on the consumer price index. Rental payments were $55,000 and in both FY 2010 and FY 2011, respectively.

Effective October 1, 2008, the Company entered into a services agreement through June 30, 2009 (the Termination Date) with an affiliate of Mr. Valenta for certain accounting, administrative and secretarial services to be provided at the corporate offices and for certain operational, technical, sales and marketing services to be provided directly to the Company s operating subsidiaries. Charges for services rendered at the corporate offices will be, until further notice, at $7,000 per month and charges for services rendered to the Company s subsidiaries will vary depending on the scope of services provided. The services agreement provides for, among other things, mutual modifications to the scope of services and rates charged and automatically renews for successive one-year terms, unless terminated in writing by either party not less than 30 days prior to the Termination Date. Total charges to the Company for services rendered under this agreement totaled $57,000 ($42,000 at the corporate office and $15,000 at the operating subsidiaries) in FY 2010 and $111,000 ($42,000 at the corporate office and $69,000 at the operating subsidiaries) in FY 2011.

Note 7. Stock Option Plans

On August 29, 2006, the Board of Directors of the Company adopted the General Finance Corporation 2006 Stock Option Plan (2006 Plan), which was approved and amended by stockholders on June 14, 2007 and December 11, 2008, respectively. Options granted and outstanding under the 2006 Plan are either incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended, or so-called non-qualified options that are not intended to meet incentive stock option requirements. All options granted do not have a term in excess of ten years, and the exercise price of any option is not less than the fair market value of the Company s common stock on the date of grant. After the adoption by the Board of Directors and upon the approval of the 2009 Stock Incentive Plan by the stockholders (see below), the Company suspended any further grants under the 2006 Plan.

On September 21, 2009, the Board of Directors of the Company adopted the 2009 Stock Incentive Plan (2009 Plan), which was approved by the stockholders at the Company s annual meeting on December 10, 2009. The 2009 Plan is an omnibus incentive plan permitting a variety of equity programs designed to provide flexibility in implementing equity and cash awards, including incentive stock options, nonqualified stock options, restricted stock grants, restricted stock units, stock appreciation rights, performance stock, performance units and other stock-based awards. Participants in the 2009 Plan may be granted any one of the equity awards or any combination of them, as determined by the Board of Directors or the Compensation Committee. Upon the approval of the 2009 Plan by the stockholders, the Company suspended further grants under the 2006 Plan (see above). Any stock options which are forfeited under the 2006 Plan will become available for grant under the 2009 Plan, but the total number of shares available under the 2006 Plan and the 2009 Plan will not exceed the 2,500,000 shares reserved for grant under the 2006 Plan. Unless terminated earlier at the discretion of the Board of Directors, the 2009 Plan will terminate September 21, 2019.

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The 2006 Plan and the 2009 Plan are referred to collectively as the Stock Incentive Plan.

There have been no grants or awards of restricted stock, restricted stock units, stock appreciation rights, performance stock or performance units under the Stock Incentive Plan. All grants to-date consist of incentive and non-qualified stock options that vest over a period of up to five years (time-based options) and non-qualified stock options that vest over varying periods that are dependent on the attainment of certain defined EBITDA and other targets for FY 2011 and subsequent fiscal years (performance-based options).

On July 14, 2010 (July 2010 Grant), the Company granted options to three non-employee consultants to purchase 40,000 shares of common stock at an exercise price of equal to the closing market value of the Company s common stock as of date, or $1.22 per share, with a vesting period of three years.

On September 15, 2010 (September 2010 Grant), the Company granted options to three officers of GFN and 12 key employees of Pac-Van and Royal Wolf to purchase 298,000 shares of common stock at an exercise price equal to the closing market price of the Company s common stock as of that date, or $1.06 per share. The options under the September 2010 Grant vest over four years, subject to performance conditions based on achieving cumulative EBITDA and indebtedness targets for the fiscal years ending June 30, 2011 2013.

On December 9, 2010 (December 2010 Grant), the Company granted options to two members of its Board of Directors to purchase 18,000 shares of common stock at an exercise price equal to the closing market price of the Company s common stock as of that date, or $2.04 per share, with a vesting period of three years.

The fair value of the stock options granted under the Stock Incentive Plan was determined by using the Black-Scholes option-pricing model. The range of the fair value of the stock options granted (other than to non-employee consultants) and the assumptions used are as follows:

Fair value of stock option	$ 0.81 $3.94
Assumptions used:	
Risk-free interest rate	1.99% 4.8%
Expected life (in years)	7.5
Expected volatility	26.5% 82.5%
Expected dividends	

At December 31, 2010, the weighted-average fair value of the stock options granted to non-employee consultants was $1.69, determined using the Black-Scholes option-pricing model using the following assumptions: A risk-free interest rate of 3.06% 3.18% an expected life of 9.1 9.5 years, an expected volatility of 80.0%, and no expected dividend. A summary of the Company s stock option activity and related information as of and for FY 2011 follows:

	Number of Options (Shares)	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term (Years)**
Outstanding at June 30, 2010	1,254,910	$ 6.65	
Granted	356,000	1.13	
Exercised			

Forfeited or expired	(195,340)		3.48	
Outstanding at December 31, 2010	1,415,570	$	5.70	7.8
Vested and expected to vest at December 31, 2010	1,397,638	$	5.69	7.8
Exercisable at December 31, 2010	540,120	$	7.84	6.7

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At December 31, 2010, outstanding time-based options and performance-based options totaled 897,550 and 518,020, respectively. Also at that date, the Company s market price for its common stock was $1.98 per share, which was at or below the exercise prices of the majority of the outstanding stock options. As a result, the intrinsic value of the outstanding stock options at that date was only $352,000.

Share-based compensation of $2,520,000 related to stock options has been recognized in the statement of operations, with a corresponding benefit to additional paid-in capital, from inception through December 31, 2010. At that date, there remains $1,504,000 of unrecognized compensation expense to be recorded on a straight-line basis over the remaining weighted-average vesting period of 2.3 years.

A deduction is not allowed for U.S. income tax purposes with respect to non-qualified options granted in the United States until the stock options are exercised or, with respect to incentive stock options issued in the United States, unless the optionee makes a disqualifying disposition of the underlying shares. The amount of any deduction will be the difference between the fair value of the Company s common stock and the exercise price at the date of exercise. Accordingly, there is a deferred tax asset recorded for the U.S. tax effect of the financial statement expense recorded related to stock option grants in the United States. The tax effect of the U.S. income tax deduction in excess of the financial statement expense, if any, will be recorded as an increase to additional paid-in capital.

Note 8. Commitments and Contingencies

Put and Call Options

In conjunction with the closing of the acquisition of Royal Wolf, the Company entered into a shareholders agreement with Bison Capital. The shareholders agreement was amended on September 21, 2009 and provides that, at any time after July 1, 2011, Bison Capital may require the Company to purchase from Bison Capital all of its 13.8% outstanding capital stock of GFN U.S. The purchase price for the capital stock (which is payable in cash or, if mutually agreeable to both the Company and Bison Capital, paid in GFN common stock or some combination thereof) is the greater of the following:

(i) the amount equal to Bison Capital s ownership percentage in GFN U.S. (13.8%) multiplied by the result of 8.25 multiplied by the sum of Royal Wolf s EBITDA for a twelve-month determination period, as defined, plus all administrative expense payments or reimbursements made by Royal Wolf to the Company during such period; minus the net debt of Royal Wolf, as defined; or

(ii) the amount equal to the Bison Capital s ownership percentage in GFN U.S. multiplied by the result of the GFN trading multiple, as defined, multiplied by Royal Wolf s EBITDA for the determination period; minus the net debt of Royal Wolf; or

(iii) the greater of (1) $12,850,000 or (2) Bison Capital s ownership percentage in GFN U.S. (or 13.8%) multiplied by the result of 8.25 multiplied by the sum of Royal Wolf s TTM EBITDA measured at the end of each fiscal quarter through June 30, 2011, as defined.

Also under the shareholders agreement, the Company had the option, at anytime prior to September 13, 2010, to cause Bison Capital to sell and transfer its 13.8% outstanding capital stock of GFN U.S. to the Company for a purchase price equal to the product of 2.75 and Bison Capital s cost in the GFN U.S. capital stock. Subsequent to July 1, 2012, the Company s call option purchase price is similar to (i) and (ii) of the Bison Capital put option, except the EBITDA multiple is 8.75.

The Company accounts for Bison Capital s put option as a non-freestanding financial instrument classified in temporary equity, pursuant to the requirements of SEC Accounting Series Release (ASR) No. 268, *Presentation in Financial Statements of Redeemable Preferred Stock.* In accordance with the guidelines of ASR No. 268, the redemption value of the put option has been reflected as redeemable noncontrolling interest with, prior to July 1, 2009, the corresponding adjustment to additional paid-in capital determined after the attribution of the net income or loss of Royal Wolf to noncontrolling interest. Effective July 1, 2009, the Company adopted the provisions of a pronouncement issued in December 2007 on what is now codified as FASB ASC Topics 805, *Business Combinations,* and 810, *Consolidation*. In connection with the adoption of the provisions in these Topics, the Company now accretes

the redemption value of the put option over the period from July 1, 2009 through June 30, 2011 with the corresponding adjustment to net income or loss attributable to noncontrolling interest.

Preferred Supply Agreement

In connection with a Business Sale Agreement dated November 14, 2007 with GE SeaCo Australia Pty Ltd. and GE SeaCo SRL (collectively GE SeaCo), Royal Wolf entered in a preferred supply agreement with GE SeaCo. Under the preferred supply agreement, GE SeaCo has agreed to sell to Royal Wolf, and Royal Wolf has agreed to purchase, all of GE SeaCo s containers that GE SeaCo determines to sell, up to a maximum of 5,000 containers each year. The purchase price for the containers will be based on their condition and is specified in the agreement, subject to annual adjustment. In addition, Royal Wolf received a right of first refusal to purchase any additional containers that GE SeaCo desires to sell in Australia, New Zealand and Papua New Guinea. Either party may terminate the agreement upon no less than 90 days prior notice at any time after November 15, 2012.

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Other Matters

The Company is not involved in any material lawsuits or claims arising out of the normal course of business. The nature of its business is such that disputes can occasionally arise with employees, vendors (including suppliers and subcontractors), and customers over warranties, contract specifications and contract interpretations among other things. The Company assesses these matters on a case-by-case basis as they arise. Reserves are established, as required, based on its assessment of its exposure. The Company has insurance policies to cover general liability and workers compensation related claims. In the opinion of management, the ultimate amount of liability not covered by insurance under pending litigation and claims, if any, will not have a material adverse effect on our financial position, operating results or cash flows.

Note 9. Cash Flows from Operating Activities and Other Financial Information

The following table provides a detail of cash flows from operating activities (in thousands):

	Six Months Ended December 31,	
	2009	**2010**
Cash flows from operating activities		
Net income	$ 87	$ 2,537
Adjustments to reconcile net income to cash flows from operating activities:		
Gain on sales and disposals of property, plant and equipment	2	(8)
Gain on sales of lease fleet	(3,179)	(3,356)
Unrealized foreign exchange gain	(1,963)	(4,514)
Unrealized loss (gain) on forward exchange contracts	(761)	336
Unrealized gain on interest rate swaps and options	(181)	(478)
Depreciation and amortization	10,351	9,532
Amortization of deferred financing costs	190	598
Accretion of interest	120	120
Share-based compensation expense	416	369
Deferred income taxes	(86)	1,368
Changes in operating assets and liabilities:		
Trade, subscription and other receivables, net	7,674	4,291
Inventories	4,584	(3,926)
Prepaid expenses and other	798	1,180
Trade payables, accrued liabilities and other deferred credits	(5,629)	(320)
Income taxes	131	38
Net cash provided by operating activities	$ 12,554	$ 7,767

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Note 10. Segment Reporting

The tables below represent the Company s revenues from external customers, operating income, interest income and expense, share-based compensation expense, depreciation and amortization, expenditures for additions to long-lived assets (consisting of lease fleet and property, plant and equipment) and long-lived assets; as attributed to its two geographic (and operating) segments (in thousands):

	Quarter Ended December 31,		Six Months Ended December 31,	
	2009	2010	2009	2010
Revenues from external customers				
North America:				
Sales	$ 4,732	$ 5,520	$ 9,206	$ 11,098
Leasing	9,098	9,234	19,051	18,691
	13,830	14,754	28,257	29,789
Asia-Pacific:				
Sales	14,556	16,641	26,695	34,452
Leasing	10,760	13,502	19,413	24,121
	25,316	30,143	46,108	58,573
Total	$ 39,146	$ 44,897	$ 74,365	$ 88,362
Operating income				
North America	$ 768	$ 575	$ 2,539	$ 1,599
Asia-Pacific	1,873	3,770	2,177	6,416
Total	$ 2,641	$ 4,345	$ 4,716	$ 8,015
Interest income				
North America	$	$	$	$
Asia-Pacific	63	125	122	230
Total	$ 63	$ 125	$ 122	$ 230
Interest expense				
North America	$ 1,341	$ 1,445	$ 2,671	$ 3,015
Asia-Pacific	2,791	2,906	5,168	5,617
Total	$ 4,132	$ 4,351	$ 7,839	$ 8,632

Share-based compensation								
North America	$	137	$	160	$	275	$	300
Asia-Pacific		33		36		141		69
Total	$	170	$	196	$	416	$	369
Depreciation and amortization								
North America	$	1,538	$	1,475	$	2,986	$	2,913
Asia-Pacific		3,556		3,385		7,365		6,619
Total	$	5,094	$	4,860	$	10,351	$	9,532
Additions to long-lived assets								
North America					$	1,499	$	2,949
Asia-Pacific						10,451		16,186
Total					$	11,950	$	19,135

	At			
		June 30, 2010		**December 31, 2010**
Long-lived assets				
North America	$	108,064	$	107,202
Asia-Pacific		90,528		112,740
Total	$	198,592	$	219,942

Intersegment net revenues totaled $429,000 during the quarter ended December 31, 2010 and $1,298,000 during FY 2011.

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

The following discussion of our financial condition and results of operations should be read together with the consolidated financial statements and the accompanying notes thereto, which are included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2010 filed with the Securities and Exchange Commission (SEC); as well as the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q. This Quarterly Report on Form 10-Q includes 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. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may, should, could, would, expect, plan, ar believe, estimate, continue, or the negative of such terms or other similar expressions. Risk factors that might cause or contribute to such a discrepancy include, but are not limited to, those described in our Annual Report on Form 10-K for the year ended June 30, 2010 and other SEC filings. We maintain a web site at *www.generalfinance.com* that makes available, through a link to the SEC s EDGAR system website, our filings that we have made with the SEC.

References to we, us, our or the Company refer to General Finance Corporation, a Delaware corporation (GFN), its direct and indirect subsidiaries, including, GFN Mobile Storage Inc., a Delaware corporation (GFNMS), GFN North America Corp., a Delaware corporation (GFNNA), and its subsidiary Pac-Van, Inc., an Indiana corporation (which, combined with GFNMS, is referred to herein as Pac-Van), GFN U.S. Australasia Holdings, Inc., a Delaware corporation (GFN U.S), its subsidiary GFN Australasia Holdings Pty Limited, an Australian corporation (GFN Holdings), its subsidiary GFN Australasia Finance Pty Limited, an Australian corporation (GFN Finance), and its subsidiary RWA Holdings Pty Limited, an Australian corporation (RWA), and its subsidiaries. GFN Holdings and its subsidiaries are collectively referred to herein as Royal Wolf.

Background and Overview

We incorporated in Delaware on October 14, 2005 and completed our initial public offering (the IPO) in April 2006. On September 13, 2007 (September 14 in Australia), we acquired Royal Wolf by purchasing the outstanding shares of RWA. The purchase price paid to the former shareholders of RWA was $64.3 million, which consisted of cash, the issuance to Bison Capital Australia, L.P., (Bison Capital), one of the sellers, of shares of common stock of GFN U.S. and the issuance of a note to Bison Capital. Following the acquisition, we own 86.2% of the outstanding capital stock of GFN U.S. and Bison Capital owns 13.8% of the outstanding capital stock of GFN U.S. Royal Wolf leases and sells storage containers, portable container buildings and freight containers in Australia and New Zealand, which is considered geographically by the Company to be the Asia-Pacific area.

On October 1, 2008, we acquired Pac-Van through a merger with Mobile Office Acquisition Corp. (MOAC), the parent of Pac-Van, and our wholly-owned subsidiary formed in July 2008, GFNNA. In addition to assuming Pac-Van s senior and other debt, we paid $46.5 million to the stockholders of MOAC by a combination of cash, GFN restricted common stock and a 20-month subordinated promissory note. Pac-Van leases and sells modular buildings, mobile offices and storage containers in the United States.

The economic downturn in the United States, particularly in the construction related industries (where Pac-Van has currently over 30% of its business and historically has had over 40%), and, until recently, the global economy in general, have had an adverse impact on the Company s operating results. We responded by reducing indebtedness, personnel costs, capital expenditures, discretionary spending and curtailing acquisition activity. We continuously monitor our performance and customer demand levels by identifying and applying best practices to make our business more efficient. Accordingly, we may continue to reduce headcount or employee compensation in the areas in which we believe we can achieve greater efficiencies without affecting customer service or our sales efforts. While this is our approach for the foreseeable future, our long-term strategy and business plan is to acquire and operate rental services and specialty finance businesses in North America, Europe and the Asia-Pacific area.

Our two operating subsidiaries, Royal Wolf and Pac-Van, lease and sell storage container products, modular buildings and mobile offices through eighteen customer service centers (CSCs) in Australia, six CSCs in New Zealand and

twenty-six branch locations across eighteen states in the United States. As of December 31, 2010, we had 231 and 185 employees and 28,973 and 11,051 lease fleet units in the Asia-Pacific area and United States, respectively. We do business in two distinct, but related industries, modular space and mobile storage, which we collectively refer to as the portable services industry. Our revenue mix was approximately 52% sales and 48% leasing during the six months ended December 31, 2010.

Our products include the following:

Modular Space

Modular Buildings. Also known as manufactured buildings, modular buildings provide customers with additional space and are often modified to customer specifications. Modular buildings range in size from 1,000 to more than 30,000 square feet and may be highly customized.

Mobile Offices and Portable Container Buildings. Also known as trailers or construction trailers, mobile offices are re-locatable units with aluminum or wood exteriors on wood (or steel) frames on a steel carriage fitted with axles, allowing for an assortment of add-ons to provide comfortable and convenient temporary space solutions. We also offer portable container buildings, ground level offices (GLOs), or office containers (which are either modified or specifically-manufactured shipping containers that are used as mobile offices), and in-plant units, which are manufactured structures that provide self-contained office space with maximum design flexibility.

Mobile Storage

Storage Containers. Storage containers consist of new and used shipping containers that provide a flexible, low cost alternative to warehousing, while offering greater security, convenience, and immediate accessibility. Our storage products include general purpose dry storage containers, refrigerated containers and specialty containers in a range of standard and modified sizes, designs and storage capacities. Specialty containers include blast-resistant units, hoarding units and hazardous-waste units.

Freight Containers. Freight containers are specifically designed for transport of products by road and rail. Our freight container products include curtain-side, refrigerated and bulk cargo containers, together with a range of standard and industry-specific dry freight containers.

Quarter Ended December 31, 2010 (QE FY 2011) Compared to Quarter December 31, 2009 (QE FY 2010)

The following compares our QE FY 2011 results of operations with our QE FY 2010 results of operations.

Revenues. Revenues increased approximately 15% to $44.9 million in QE FY 2011 from $39.1 in QE FY 2010. This included an increase of $1.0 million, or 7%, in revenues at Pac-Van and a $4.8 million increase, or 19%, in revenues at Royal Wolf. The translation effect of the average currency exchange rate, driven by the strengthening in the Australian dollar to the U.S. dollar in QE FY 2011 versus QE FY 2010, caused a portion of the increase in total revenues at Royal Wolf which otherwise would have shown an increase of 10%. Since the second half of our fiscal year ended June 30, 2009 (FY 2009), the economic downturn in both our geographic segments resulted in a significant reduction in our overall business, particularly in the construction-related sector in the United States and in the mining and defense and transportation sectors in the Asia-Pacific area. However, in QE FY 2011, when compared to QE FY 2010, revenues in these sectors increased by $0.4 million in the United States and $2.3 million in the Asia-Pacific area. Sales and leasing revenues represented 49% and 51% of total revenues in both QE FY 2011 and QE FY 2010.

Sales during QE FY 2011 amounted to $22.2 million, compared to $19.3 million during QE FY 2010; representing an increase of $2.9 million, or 15%. This included an increase of $0.8 million, or 17%, in sales at Pac-Van and a $2.1 million increase, or 14%, in sales at Royal Wolf. The translation effect of the average currency exchange rate, driven by the strengthening in the Australian dollar to the U.S. dollar in QE FY 2011 versus QE FY 2010, caused a portion of the increase in sales revenues at Royal Wolf which otherwise would have shown an increase of 5%. In QE FY 2011, sales in the Asia-Pacific area increased $2.5 million in our CSC retail operations and decreased $0.4 million in our national accounts group (or non-retail operations). In the United States, the higher sales revenues in QE FY 2011 over QE FY 2010 were primarily from modular building and mobile office projects in the educational, construction and industrial sectors.

The $2.5 million revenue increase at Royal Wolf in the retail operations resulted from a $0.5 million increase in unit sales, a $0.7 million increase due to higher prices and a favorable foreign exchange rate effect of $1.3 million. The higher sales revenues were primarily due to increased demand in our CSCs in Western Australia, because of increased oil and gas exploration activities, and in the Queensland and Victoria regions.

The $0.4 million revenue decrease at Royal Wolf in the national accounts group resulted from a $1.0 million decrease in unit sales, substantially offset by a $0.5 million increase due to higher prices and a favorable foreign exchange rate effect of $0.1 million. QE FY 2011 revenues included the sales of 13 mining container units (versus five units in QE FY 2010) that remained in inventory as a result of a cancelled leasing order in FY 2009. There are 59 of these units

available for sale at December 31, 2010, at a cost of approximately $20,000 each, which we anticipate selling at approximately $23,000 per unit.

Leasing revenues during QE FY 2011 totaled $22.7 million, as compared to $19.9 million during QE FY 2010, representing an increase of $2.8 million, or 14%. Leasing revenues increased slightly at Pac-Van by $0.1 million, or 1%, and increased by $2.7 million, or 25%, at Royal Wolf. The translation effect of the average currency exchange rate, driven by the strengthening in the Australian dollar to the U.S. dollar in QE FY 2011 versus QE FY 2010, caused a portion of the increase in total revenues at Royal Wolf which otherwise would have shown an increase of 15%. The favorable foreign exchange rate effect at Royal Wolf in QE FY 2011 totaled $1.1 million ($0.8 million and $0.3 million in our retail business and national accounts group, respectively) from QE FY 2010.

At Royal Wolf, average utilization in the retail operations was 89% during QE FY 2011, as compared to 79% during QE FY 2010; and average utilization in the national accounts group operations was 84% during QE FY 2011, as compared to 78% during QE FY 2010. Overall average utilization at Royal Wolf was 88% in QE FY 2011 and 79% in QE FY 2010; and the average monthly lease rate of containers in QE FY 2011 and QE FY 2010 was AUS$159 and AUS$158, respectively. We believe the primary reason we were able to both increase our overall average utilization and maintain our composite monthly lease rate between the periods at Royal Wolf was because of our position as the only national company in the mobile storage industry in Australia and New Zealand. However, we continually review each local market in which we do business to determine if local factors justify increases or decreases in lease rates and the effect these changes would have on utilization and revenues.

At Pac-Van, average utilization rates were 88%, 64% and 72% and monthly lease rates were $99, $226 and $843 for containers, mobile offices and modular units, respectively, during QE FY 2011; as compared to 76%, 62% and 77% and $95, $241 and $922 for containers, mobile offices and modular units in QE FY 2010, respectively. The generally lower monthly lease rates resulted from lower demand and increased competition, particularly in the construction-related industry. Pac-Van is required to maintain a minimum average composite utilization rate, as defined, of over 60% for each quarter. For QE FY 2011, the average composite utilization rate was 72%.

The average value of the Australian dollar against the U.S. dollar strengthened during QE FY 2011 as compared to QE FY 2010. The average currency exchange rate of one Australian dollar during QE FY 2011 was $0.98771 U.S. dollar compared to $0.90837 U.S. dollar during QE FY 2010. This fluctuation in foreign currency exchange rates resulted in an increase to our total revenues at Royal Wolf of $2.5 million in QE FY 2011 when compared to QE FY 2010.

Cost of Sales. Cost of sales (which is the cost related to our sales revenues only and exclusive of the line items discussed below) increased by $1.6 million to $16.6 million during QE FY 2011 from $15.0 million during QE FY 2010, but was proportionately more profitable. Our gross profit percentage from sales revenues was 25% in QE FY 2011 versus 22% in QE FY 2010.

Direct Costs of Leasing Operations and Selling and General Expenses. Direct costs of leasing operations (which excludes depreciation and amortization) and selling and general expenses aggregately increased, by $2.6 million, to $19.0 million during QE FY 2011 from $16.4 million during QE FY 2010. However, as a percentage of revenues, these operating expenses were 42% during both periods. Since the second half of FY 2009, we implemented cost-cutting measures in primarily the United States to offset the effects of the economic downturn. This cost cutting involved: (1) salaries and related payroll costs as a result of staff reductions and lower bonuses, (2) less discretionary spending and (3) better control of our professional costs.

In general, with respect to our operating segments, Pac-Van s operating expenses as a percentage of revenues are higher than Royal Wolf s percentage as: (1) Royal Wolf s mix of QE FY 2011 sales to leasing revenue at 55% is higher than the 37% at Pac-Van, (2) Pac-Van has an office modular fleet which is a lower margin product line; and (3) Pac-Van has less density in its retail markets.

Depreciation and Amortization. Depreciation and amortization decreased by $0.2 million to $4.9 million during QE FY 2011 from $5.1 million during QE FY 2010. The decrease was primarily due to the completion of the amortization period of certain intangible assets that were recorded in connection with our acquisition of Royal Wolf in September 2007.

Interest Expense. Interest expense of $4.4 million in QE FY 2011 was $0.3 million higher than the $4.1 million in QE FY 2010. This was comprised of an increase of $0.2 million at Royal Wolf and $0.1 million in the United States. Royal Wolf s weighted-average interest rate (without the effect of the interest rate swap and option contracts) was 10.5% in QE FY 2011, as compared to 10.2% in QE FY 2010; and the weighted-average rate in the United States was

6.2% in QE FY 2011, as compared to 5.5% in QE FY 2010.

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Foreign Currency Exchange. We have certain U.S. dollar-denominated debt at Royal Wolf, including intercompany borrowings, which are remeasured at each financial reporting date with the impact of the remeasurement being recorded in our consolidated statements of operations. Unrealized gains and losses resulting from such remeasurement due to changes in the Australian exchange rate to the U.S. dollar could have a significant impact in our reported results of operations, as well as any realized gains and losses from the payments on such U.S. dollar-denominated debt and intercompany borrowings. As noted above, the average value of the U.S. dollar against the Australian dollar weakened during QE FY 2011 as compared to QE FY 2010 and from September 30, 2010 to December 31, 2010. The currency exchange rate of one Australian dollar at September 30, 2010 was $0.9701 U.S. dollar compared to $1.0163 U.S. dollar at December 31, 2010. In QE FY 2011, net unrealized and realized foreign exchange gains totaled $1.3 million and $0.3 million, respectively, and net unrealized gains on forward currency exchange contracts totaled $0.6 million. In QE FY 2010, net unrealized and realized foreign exchange gains (losses) totaled $(0.3) million and $0.3 million, respectively, and net unrealized gains on forward currency exchange contracts totaled $0.6 million in QE FY 2010.

Income Taxes. Our effective income tax rate was 37.8% and 36.5% during QE FY 2011 and QE FY 2010, respectively. The effective rate in both periods is greater than the U.S. federal rate of 34% primarily because of state income taxes from the filing of tax returns in multiple U.S. states and because a portion of the depreciation and amortization on the fixed and intangible assets recorded in the Pac-Van acquisition is not deductible for U.S. federal income tax purposes, offset somewhat by the favorable income tax impact of the amortization of goodwill acquired in acquisitions made in the Asia-Pacific area, which is deductible for U.S. income tax reporting purposes.

Noncontrolling Interest. Noncontrolling interest, which represents Bison Capital s 13.8% interest in Royal Wolf, was a charge of $0.6 million in both QE FY 2011 and QE FY 2010. As discussed in Note 8 of Notes to Consolidated Financial Statements, we commenced accreting the redemption value of the Bison Capital put option over the period from July 1, 2009 through June 30, 2011.

Net Income (Loss) Attributable to Common Stockholders. We had net income attributable to common stockholders of $0.7 million in QE FY 2011, as compared to a net loss of $1.2 million in QE FY 2010, primarily as a result of increased profitability in the Asia-Pacific area, offset somewhat by higher interest expense.

Six Months Ended December 31, 2010 (YTD FY 2011) Compared to Six Months December 31, 2009 (YTD FY 2010)

The following compares our YTD FY 2011 results of operations with our YTD FY 2010 results of operations.

Revenues. Revenues increased approximately 19% to $88.4 million in YTD FY 2011 from $74.4 in YTD FY 2010. This included an increase of $1.5 million, or 5%, in revenues at Pac-Van and a $12.5 million increase, or 27%, in revenues at Royal Wolf. The translation effect of the average currency exchange rate, driven by the strengthening in the Australian dollar to the U.S. dollar in YTD FY 2011 versus YTD FY 2010, caused a portion of the increase in total revenues at Royal Wolf which otherwise would have shown an increase of 19%. Since the second half of our fiscal year ended June 30, 2009 (FY 2009), the economic downturn in both our geographic segments resulted in a significant reduction in our overall business, particularly in the construction-related sector in the United States and in the mining and defense and transportation sectors in the Asia-Pacific area. In YTD FY 2011, when compared to YTD FY 2010, revenues in the construction sector decreased by $0.7 million in the United States. However, in the Asia-Pacific area, revenues in the mining and defense and transportation sectors improved by $5.0 million. Sales and leasing revenues represented 52% and 48% of total revenues in YTD FY 2011 and 48% and 52% of total revenues in YTD FY 2010, respectively.

Sales during YTD FY 2011 amounted to $45.6 million, compared to $35.9 million during YTD FY 2010; representing an increase of $9.7 million, or 27%. This included an increase of $1.9 million, or 21% in sales at Pac-Van and a $7.8 million increase, or 29%, in sales at Royal Wolf. The translation effect of the average currency exchange rate, driven by the strengthening in the Australian dollar to the U.S. dollar in YTD FY 2011 versus YTD FY 2010, caused a portion of the increase in sales revenues at Royal Wolf which otherwise would have shown an increase of 22%. In YTD FY 2011, sales in the Asia-Pacific area increased $1.9 million in our national accounts group (or non-retail operations), primarily because of the enhanced activity in the mining and defense and transportation sectors; and increased $5.9 million in our CSC retail operations from YTD FY 2010. In the United States, the higher sales

revenues in YTD FY 2011 over YTD FY 2010 were due to delivery and installation services on projects primarily in the educational and industrial sectors.

The $5.9 million revenue increase at Royal Wolf in the retail operations resulted from a $1.8 million increase in unit sales, a $1.8 million increase due to higher prices and a favorable foreign exchange rate effect of $2.3 million. The higher sales revenues were primarily due to increased demand in our CSCs in Western Australia and the Northern Territory because of increased activities in the oil and gas exploration and defense sectors in those regions, as well as increased business in our Melbourne CSC in the Victoria region.

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The $1.9 million revenue increase at Royal Wolf in the national accounts group resulted from a $5.1 million increase due to higher prices and a favorable foreign exchange rate effect of $0.4 million, offset somewhat by a $3.6 million decrease in unit sales. This increase included the sales of 57 mining container units (versus six units in YTD FY 2010) that remained in inventory as a result of a cancelled leasing order in FY 2009. There are 59 of these units available for sale at December 31, 2010, at a cost of approximately $20,000 each, which we anticipate selling at approximately $23,000 per unit.

Leasing revenues during YTD FY 2011 totaled $42.8 million, as compared to $38.5 million during YTD FY 2010, representing an increase of $4.3 million, or 11%. Leasing revenues decreased at Pac-Van by $0.4 million, or 2%, and increased by $4.7 million, or 24%, at Royal Wolf. The translation effect of the average currency exchange rate, driven by the strengthening in the Australian dollar to the U.S. dollar in YTD FY 2011 versus YTD FY 2010, caused a portion of the increase in total revenues at Royal Wolf which otherwise would have shown an increase of 14%. The favorable foreign exchange rate effect at Royal Wolf in YTD FY 2011 totaled $1.9 million ($1.6 million and $0.3 million in our retail business and national accounts group, respectively) from YTD FY 2010.

At Royal Wolf, average utilization in the retail operations was 88% during YTD FY 2011, as compared to 77% during YTD FY 2010; and average utilization in the national accounts group operations was 78% during YTD FY 2011, as compared to 71% during YTD FY 2010. Overall average utilization at Royal Wolf was 84% in YTD FY 2011 and 75% in YTD FY 2010; and the average monthly lease rate of containers was AUS$156 in YTD FY 2011 and AUS$155 in YTD FY 2010. We believe the primary reason we were able to both increase our overall average utilization and maintain our composite monthly lease rate between the periods at Royal Wolf was because of our position as the only national company in the mobile storage industry in Australia and New Zealand. However, we continually review each local market in which we do business to determine if local factors justify increases or decreases in lease rates and the effect these changes would have on utilization and revenues.

At Pac-Van, average utilization rates were 85%, 65% and 72% and monthly lease rates were $97, $225 and $848 for containers, mobile offices and modular units, respectively, during YTD FY 2011; as compared to 76%, 62% and 76% and $96, $243 and $945 for containers, mobile offices and modular units in YTD FY 2010, respectively. The generally lower monthly lease rates resulted from lower demand and increased competition, particularly in the construction-related industry. Pac-Van is required to maintain a minimum average composite utilization rate, as defined, of over 60% for each quarter. For YTD FY 2011, the average composite utilization rate was 72%.

The average value of the Australian dollar against the U.S. dollar strengthened during YTD FY 2011 as compared to YTD FY 2010. The average currency exchange rate of one Australian dollar during YTD FY 2011 was $0.94529 U.S. dollar compared to $0.8704 U.S. dollar during YTD FY 2010. This fluctuation in foreign currency exchange rates resulted in an increase to our total revenues at Royal Wolf of $4.6 million in YTD FY 2011 when compared to YTD FY 2010.

Cost of Sales. Cost of sales (which is the cost related to our sales revenues only and exclusive of the line items discussed below) increased by $6.7 million to $34.3 million during YTD FY 2011 from $27.6 million during YTD FY 2010, but was proportionately more profitable. Our gross profit percentage from sales revenues was 25% in YTD FY 2011 versus 23% in YTD FY 2010.

Direct Costs of Leasing Operations and Selling and General Expenses. Direct costs of leasing operations (which excludes depreciation and amortization) and selling and general expenses aggregately increased, by $4.9 million, to $36.6 million during YTD FY 2011 from $31.7 million during YTD FY 2010. However, as a percentage of revenues, these operating expenses decreased to 41% in YTD FY 2011 from 43% in YTD FY 2010. Since the second half of FY 2009, we implemented cost-cutting measures in primarily the United States to offset the effects of the economic downturn. This cost cutting involved: (1) salaries and related payroll costs as a result of staff reductions and lower bonuses, (2) less discretionary spending and (3) better control of our professional costs.

In general, with respect to our operating segments, Pac-Van s operating expenses as a percentage of revenues are higher than Royal Wolf s percentage as: (1) Royal Wolf s mix of YTD FY 2011 sales to leasing revenue at 59% is higher than the 37% at Pac-Van, (2) Pac-Van has an office modular fleet which is a lower margin product line; and (3) Pac-Van has less density in its retail markets.

Depreciation and Amortization. Depreciation and amortization decreased by $0.9 million to $9.5 million during YTD FY 2011 from $10.4 million during YTD FY 2010. The decrease was primarily due to (1) an adjustment of $0.5 million in YTD FY 2010 related to the amortization period of certain intangible assets and (2) the completion of the amortization period of certain intangible assets; all of which were recorded n connection with our acquisition of Royal Wolf in September 2007.

Interest Expense. Interest expense of $8.6 million in YTD FY 2011 was $0.8 million higher than the $7.8 million in QE FY 2010. This was comprised of an increase of $0.5 million at Royal Wolf and $0.3 million in the United States. Royal Wolf s weighted-average interest rate (without the effect of the interest rate swap and option contracts) was 10.8% in YTD FY 2011, as compared to 10.1% in YTD FY 2010; and the weighted-average rate in the United States was 6.1% in YTD FY 2011, as compared to 5.4% in YTD FY 2010.

Foreign Currency Exchange. We have certain U.S. dollar-denominated debt at Royal Wolf, including intercompany borrowings, which are remeasured at each financial reporting date with the impact of the remeasurement being recorded in our consolidated statements of operations. Unrealized gains and losses resulting from such remeasurement due to changes in the Australian exchange rate to the U.S. dollar could have a significant impact in our reported results of operations, as well as any realized gains and losses from the payments on such U.S. dollar-denominated debt and intercompany borrowings. As noted above, the average value of the U.S. dollar against the Australian dollar weakened during YTD FY 2011 as compared to YTD FY 2010 and from June 30, 2010 to December 31, 2010. The currency exchange rate of one Australian dollar at June 30, 2010 was $0.8567 U.S. dollar compared to $1.0163 U.S. dollar at December 31, 2010. In YTD FY 2011, net unrealized and realized foreign exchange gains totaled $4.5 million and $0.3 million, respectively, and net unrealized losses on forward currency exchange contracts totaled $0.3 million. In YTD FY 2010, net unrealized and realized foreign exchange gains totaled $2.0 million and $0.4 million, respectively, and net unrealized gains on forward currency exchange contracts totaled $0.8 million in YTD FY 2010.

Income Taxes. Our effective income tax rate was 37.8% and 36.5% during YTD FY 2011 and YTD FY 2010, respectively. The effective rate in both periods is greater than the U.S. federal rate of 34% primarily because of state income taxes from the filing of tax returns in multiple U.S. states and because a portion of the depreciation and amortization on the fixed and intangible assets recorded in the Pac-Van acquisition is not deductible for U.S. federal income tax purposes, offset somewhat by the favorable income tax impact of the amortization of goodwill acquired in acquisitions made in the Asia-Pacific area, which is deductible for U.S. income tax reporting purposes. At June 30, 2010, we had a U.S. federal net operating loss carryforward of approximately $46.7 million, which expires if unused during our fiscal years ending June 30, 2020 2030.

Noncontrolling Interest. Noncontrolling interest, which represents Bison Capital s 13.8% interest in Royal Wolf, was a charge of $1.1 million in both YTD FY 2011 and YTD FY 2010. As discussed in Note 8 of Notes to Consolidated Financial Statements, we commenced accreting the redemption value of the Bison Capital put option over the period from July 1, 2009 through June 30, 2011.

Net Income (Loss) Attributable to Common Stockholders. We had net income attributable to common stockholders of $1.3 million in YTD FY 2011, as compared to a net loss of $1.1 million in YTD FY 2010, primarily as a result of increased profitability in the Asia-Pacific area, offset somewhat by higher interest expense.

Measures not in Accordance with Generally Accepted Accounting Principles in the United States (U.S. GAAP)

Earnings before interest, income taxes, impairment, depreciation and amortization and other non-operating costs and income (EBITDA) and adjusted EBITDA are supplemental measures of our performance that are not required by, or presented in accordance with U.S. GAAP. These measures are not measurements of our financial performance under U.S. GAAP and should not be considered as alternatives to net income, income from operations or any other performance measures derived in accordance with U.S. GAAP or as an alternative to cash flow from operating, investing or financing activities as a measure of liquidity.

Adjusted EBITDA is a non-U.S. GAAP measure. We calculate adjusted EBITDA to eliminate the impact of certain items we do not consider to be indicative of the performance of our ongoing operations. You are encouraged to evaluate each adjustment and whether you consider each to be appropriate. In addition, in evaluating adjusted EBITDA, you should be aware that in the future, we may incur expenses similar to the adjustments in the presentation of adjusted EBITDA. Our presentation of adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. We present adjusted EBITDA because we consider it to be an important supplemental measure of our performance and because we believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry, many of which present EBITDA and a form of our adjusted EBITDA when reporting their results. Adjusted EBITDA has limitations as an

analytical tool, and should not be considered in isolation, or as a substitute for analysis of our results as reported under U.S. GAAP. Because of these limitations, adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business or to reduce our indebtedness. We compensate for these limitations by relying primarily on our U.S. GAAP results and using adjusted EBITDA only supplementally. The following table shows our adjusted EBITDA and the reconciliation from net income (loss) (in thousands):

	Quarter Ended December 31,		**Six Months Ended December 31,**	
	2009	**2010**	**2009**	**2010**
Net income (loss)	$ (561)	$ 1,342	$ 87	$ 2,537
Add (deduct)				
Provision (benefit) for income taxes	(322)	815	50	1,541
Foreign currency exchange (gain) loss and other	(545)	(2,038)	(3,138)	(4,465)
Interest expense	4,132	4,351	7,839	8,632
Interest income	(63)	(125)	(122)	(230)
Depreciation and amortization	5,094	4,860	10,351	9,532
Share-based compensation expense	170	196	416	369
Adjusted EBITDA	$ 7,905	$ 9,401	$ 15,483	$ 17,916

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Our business is capital intensive, so from an operating level we focus primarily on EBITDA and adjusted EBITDA to measure our results. These measures provide us with a means to track internally generated cash from which we can fund our interest expense and fleet growth objectives. In managing our business, we regularly compare our adjusted EBITDA margins on a monthly basis. As capital is invested in our established branch locations, we achieve higher adjusted EBITDA margins on that capital than we achieve on capital invested to establish a new branch (or CSC), because our fixed costs are already in place in connection with the established branches. The fixed costs are those associated with yard and delivery equipment, as well as advertising, sales, marketing and office expenses. With a new market or branch, we must first fund and absorb the start-up costs for setting up the new branch facility, hiring and developing the management and sales team and developing our marketing and advertising programs. A new branch will have low adjusted EBITDA margins in its early years until the number of units on rent increases. Because of our higher operating margins on incremental lease revenue, which we realize on a branch-by-branch basis, when the branch achieves leasing revenues sufficient to cover the branch s fixed costs, leasing revenues in excess of the break-even amount produces large increases in profitability. Conversely, absent significant growth in leasing revenues, the adjusted EBITDA margin at a branch will remain relatively flat on a period by period comparative basis.

Liquidity and Financial Condition

Each of our two operating units, Royal Wolf and Pac Van, fund their operations substantially through secured bank credit facilities that require compliance with various covenants. These covenants require them to, among other things, maintain certain levels of interest coverage, EBITDA (as defined), utilization rate and overall leverage. In addition, we have certain obligations and subordinated notes payable to Bison Capital (with our purchase of Royal Wolf) and a subordinated note payable by GFN to Laminar Direct Capital, L.L.C. (Laminar), that was issued in connection with the refinancing at Pac-Van in YTD FY 2011 (see below). We also have a $1.0 million credit facility with Union Bank at GFN under which no borrowings were outstanding as of December 31, 2010.

The economic downturn in the United States, particularly in the construction related industries (where Pac-Van has currently over 30% of its business and historically has had over 40%), and, until recently, the global economy in general, have had an adverse impact on the Company s operating results. To offset this adverse effect, we undertook cost-reduction and other measures to reduce our indebtedness and continue complying with the financial loan covenants of our senior lenders. In addition, on June 25, 2010 we completed a rights offering for the issuance and sale of units at $1.50 each (with each unit consisting of one share of GFN common stock and a three-year warrant to purchase 0.5 additional shares of GFN common stock at an exercise price of $4.00 per share). We utilized $4,800,000 of the approximately $5,900,000 net proceeds from the rights offering in the refinancing at Pac-Van in YTD FY 2011 (see below).

Prior to July 16, 2010, Pac-Van had a senior credit facility, as amended, with a syndicate of four financial institutions led by Bank of America, N.A. (BOA), as administrative and collateral agent, and a $25,000,000 senior subordinated secured note payable to SPV Capital Funding, L.L.C. (SPV). On July 16, 2010, we entered into several agreements relating to: (a) a new $85,000,000 senior secured revolving credit facility at Pac-Van with a syndicate led by PNC Bank, National Association (PNC) and including Wells Fargo Bank, National Association and Union Bank (the PNC Credit Facility); and (b) a new $15,000,000 senior subordinated note with Laminar issued by GFN (the Laminar Note). Borrowings under the PNC Credit Facility and proceeds from both the issuance of the Laminar Note and our rights offering (see above) were used to prepay in full all borrowings under the BOA credit facility and the $25,000,000 senior subordinated secured note payable to SPV. This refinancing also resulted in the establishment of less restrictive covenants through the PNC Credit Facility. The PNC Credit Facility matures on January 16, 2013 and the Laminar Note matures on July 16, 2013.

Reference is made to Notes 3 and 4 of Notes to Condensed Consolidated Financial Statements for more information regarding our rights offering and indebtedness.

The above actions should allow us to be able to satisfy its long-term debt and other liquidity requirements and to comply with our financial loan covenants for the foreseeable future. However, if operating results worsen, particularly in the U.S., we may eventually be unable to comply with the covenants governing our indebtedness; which may require waivers of covenant compliance, amendments to such agreements or alternative borrowing arrangements. There is no assurance that the senior lenders would consent to such an amendment or waiver in the event of noncompliance; or that such consent would not be conditioned upon the receipt of a cash payment, revised principal payout terms, increased interest rates, or restrictions in the expansion of the credit facilities. Nor is there any assurance that senior lenders would not exercise rights that would be available to them, including, among other things, demanding payment of outstanding borrowings.

As of December 31, 2010, our required principal and other obligations payments (including Bison Capital s put option at the minimum amount) for the twelve months ending December 31, 2011 and the subsequent three twelve-month periods are as follows (in thousands):

	Twelve Months Ending December 31,			
	2011	2012	2013	2014
ANZ Credit Facility (a)	$ 20,130	$ 69,749	$ 506	$ 533
Bison Capital Subordinated Notes	5,500		16,296	
Bison Capital Put Option	12,850			
PNC Credit Facility (b)			68,571	
Laminar Note (c)			15,000	
Other	958	571	108	70
	$ 39,438	$ 70,320	$ 100,481	$ 603

(a) Reflects the overdraft facilities totaling $7,276 as due within the next twelve months. These should continually roll over and would be fully repaid at the maturity of the ANZ credit facility in September 2012.

(b) Scheduled to mature in January 2013.

(c) Scheduled to mature in July 2013.

As reflected above, unless conditions significantly change, a company-wide capital restructuring will be required some time before or during our fiscal year ending June 30, 2013, as most of the outstanding indebtedness matures during this period. In the foreseeable future, however, we have three principal objectives with respect to our liquidity:

1. Reduce overall leverage in each operating entity by minimizing capital expenditures and using operating cash flow to pay interest and reduce debt.
2. Operate the businesses to meet all loan covenant requirements.
3. Generate sufficient capital, either through operations or external sources, including debt or equity, to meet loan maturities and the potential payment of the Bison Capital put option.

As a part of achieving these objectives, we most likely will require external financing in the foreseeable future to pay the $5.5 million due Bison Capital in July 2011 and the Bison Capital put option exercisable in July 2011. This put option could be paid, with Bison Capital s approval, by a combination of cash and common stock. While we believe such external financing could be derived from various sources, including individual or institutional investors, there can be no assurance that we will be successful in raising the required capital under favorable terms and conditions, if at all.

We currently do not pay a dividend on our common stock and do not intend on doing so in the foreseeable future.

Cash Flow for YTD FY 2011 Compared to YTD FY 2010

Our leasing business is capital intensive, and we acquire leasing assets before they generate revenues, cash flow and earnings. These leasing assets have very long useful lives and require relatively minimal maintenance expenditures.

Most of the capital we deploy into our leasing business historically has been used to expand our operations geographically, to increase the number of units available for lease at our retail locations and to add to the breadth of our product mix. Our operations have generated annual cash flow that exceeds our reported earnings, which would include, even in profitable periods, the deferral of income taxes caused by accelerated depreciation that is used for tax accounting.

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As we discussed above, our principal source of capital for operations consists of funds available from the senior secured credit facility with ANZ and the PNC Credit Facility. We also finance a smaller portion of capital requirements through finance leases and lease-purchase contracts, have a $1.0 million line of credit with Union Bank and have outstanding senior subordinated notes with Bison Capital and SPV. Supplemental information pertaining to our combined sources and uses of cash is presented in the table below (in thousands):

	Six Months Ended December 31,			
	2009		2010	
Net cash provided by operating activities	$	12,554	$	7,767
Net cash provided (used) by investing activities	$	56	$	(8,822)
Net cash used by financing activities	$	(15,211)	$	(2,949)

Operating activities. Our operations provided net cash flow of $7.8 million during YTD FY 2011, a decrease of $4.8 million from the $12.6 million provided during YTD FY 2010. This was primarily because cash flow from the management of operating assets and liabilities was $6.3 million less in YTD FY 2011 from YTD FY 2010 due primarily to increased inventory levels in the Asia-Pacific area, offset somewhat by increased net income to $2.5 million in YTD FY 2011 from $0.1 million in YTD FY 2010. In both YTD FY 2011 and YTD FY 2010, operating cash flow was enhanced for non-cash adjustments of depreciation and amortization on fixed and intangible assets of $9.5 million and $10.4 million; and was offset somewhat for reductions of unrealized foreign exchange gains totaling $4.5 million and $2.0 million, respectively. In addition, during both periods, operating cash flows were reduced by gains on the sales of lease fleet totaling over $3.0 million. Historically, our cash provided by operating activities is also enhanced by the deferral of most income taxes due to the rapid tax depreciation rate of our assets and our federal and state net operating loss carryforwards.
Investing Activities. Net cash used by investing activities was $8.8 million during YTD FY 2011, as compared to $0.1 million provided during YTD FY 2010. Purchases of property, plant and equipment, or rolling stock, were approximately $1.1 million in YTD FY 2011 and $0.9 million in YTD FY 2010; and net capital expenditures of lease fleet (purchases, net of proceeds from sales of lease fleet) were $7.1 million in YTD FY 2011 and a negative $0.9 million in YTD FY 2010. We have increased our lease fleet investing in the Asia-Pacific area during YTD FY 2011 to meet the demands of its improving economy. However, we continue to minimize capital expenditures in the United States and anticipate our near term investing activities domestically will be primarily focused on acquiring (a) specific types of units that are not in our fleet and are placed on-rent, (b) technology and communication improvements for our telephone and computer systems and (c) delivery equipment whereby we would derive improved customer service levels and cost savings. The amount of cash that we use during any period in investing activities is almost entirely within management s discretion and, other than a preferred supply agreement which requires us to purchase up to 5,000 containers if offered to us, and the put and call options pertaining to Bison Capital s minority interest of 13.8% in GFN U.S. (see Note 8 of Notes to Condensed Consolidated Financial Statements), we have no significant long-term contracts or other arrangements pursuant to which we may be required to purchase at a certain price or a minimum amount of goods or services.
Financing Activities. Net cash used by financing activities was $2.9 million during YTD FY 2011, as compared to $15.2 million provided during YTD FY 2010. In YTD FY 2011, we reduced our outstanding borrowings by $2.8 million, as compared to $15.2 million in YTD FY 2010, and incurred deferred financing costs of $1.3 million during the refinancing at Pac-Van in July 2010 (see Note 4 of Notes to Condensed Consolidated Financial Statements). These investing uses were offset somewhat by net proceeds received on capital leasing activities of $1.2 million in YTD FY 2011. Since the second half of our fiscal year ended June 30, 2009, we have made debt

reduction a principal objective.

Asset Management

Receivables and inventories (including foreign translation effect) were $24.6 million and $25.5 million at December 31, 2010 and $25.7 million and $19.1 million at June 30, 2010, respectively. Inventory levels have increased at December 31, 2010 from June 30, 2010, due primarily to the improving economy in the Asia-Pacific area; but effective asset management remains a significant focus, as we strive to continue to apply appropriate credit and collection controls and reduce inventory levels to maintain and enhance cash flow and profitability. At December 31, 2010, days sales outstanding (DSO) in trade receivables were 46 days and 53 days for Royal Wolf and Pac-Van, as compared to 43 days and 52 days at June 30, 2010, respectively.

The net book value of our total lease fleet increased (including foreign translation effect) from $188.4 million at June 30, 2010 to $209.1 million at December 31, 2010. At December 31, 2010, we had 40,024 units (16,092 units in retail operations in Australia, 7,848 units in national account group operations in Australia, 5,033 units in New Zealand, which are considered retail; and 11,051 units in the United States) in our lease fleet, as compared 37,862 units (15,945 units in retail operations in Australia, 6,444 units in national account group operations in Australia, 4,538 units in New Zealand, which are considered retail; and 10,935 units in the United States) at June 30, 2010. At those dates**,** 33,952 units (13,836 units in retail operations in Australia, 7,387 units in national account group operations in Australia**,** 4,687 units in New Zealand, which are considered retail; and 8,042 units in the United States) and 29,735 units (12,997 units in retail operations in Australia, 4,875 units in national account group operations in Australia, 3,954 units in New Zealand, which are considered retail; and 7,909 units in the United States) were on lease, respectively.

In the United States, the lease fleet was comprised of 3,938 containers, 6,127 mobile offices and 986 modular units at December 31, 2010; and 3,800 containers, 6,144 mobile offices and 991 modular units at June 30, 2010. At those dates, in the United States, units on lease were comprised of 3,452 containers, 3,850 mobile offices and 740 modular units; and 3,205 containers, 3,973 mobile offices and 731 modular units, respectively.

Off-Balance Sheet Arrangements

We do not maintain any off-balance sheet transactions, arrangements, obligations or other relationships with unconsolidated entities or others that are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Seasonality

Although demand from certain customer segments can be seasonal, our operations as a whole are not seasonal to any significant extent. We experience a reduction in sales volumes at Royal Wolf during Australia s summer holiday break from mid-December to the end of January, followed by February being a short working day month. However, this reduction in sales typically is counterbalanced by the increased lease revenues derived from the removals or moving and storage industry, which experiences its seasonal peak of personnel relocations during this same summer holiday break. Demand from some of Pac-Van s customers can be seasonal, such as in the construction industry, which tends to increase leasing activity in the first and fourth quarters; while customers in the retail industry tend to lease more units in the second quarter.

Impact of Inflation

We believe that inflation has not had a material effect on our business. However, during periods of rising prices and, in particular when the prices increase rapidly or to levels significantly higher than normal, we may incur significant increases in our operating costs and may not be able to pass price increases through to our customers in a timely manner, which could harm our future results of operations.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we re-evaluate all of our estimates. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions as additional information becomes available in future periods. We believe the following are the more significant judgments and estimates used in the preparation of our consolidated financial statements.

We are required to estimate the collectability of our trade receivables. Accordingly, we maintain allowances for doubtful accounts for estimated losses that may result from the inability of our customers to make required payments. On a recurring basis, we evaluate a variety of factors in assessing the ultimate realization of these receivables, including the current credit-worthiness of our customers, days outstanding trends, a review of historical collection results and a review of specific past due receivables. If the financial conditions of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required, resulting in decreased net income. To date, uncollectible accounts have been within the range of our expectations.

We lease and sell storage container products, modular buildings and mobile offices to our customers. Leases to customers generally qualify as operating leases unless there is a bargain purchase option at the end of the lease term. Revenue is recognized as earned in accordance with the lease terms established by the lease agreements and when collectability is reasonably assured. Revenue is recognized as earned in accordance with the lease terms established by the lease agreements and when collectability is reasonably assured. Revenue from sales of equipment is recognized upon delivery and when collectability is reasonably assured.

We have a fleet of storage containers, mobile offices, modular buildings and steps that we lease to customers under operating lease agreements with varying terms. The lease fleet (or lease or rental equipment) is recorded at cost and depreciated on the straight-line basis over the estimated useful life (5 20 years), after the date the units are put in

service, and are depreciated down to their estimated residual values (up to 70% of cost). In our opinion, estimated residual values are at or below net realizable values. We periodically review these depreciation policies in light of various factors, including the practices of the larger competitors in the industry, and our own historical experience.

For the issuances of stock options, we follow the fair value provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718, *Compensation Stock Compensation.* FASB ASC Topic 718 requires recognition of employee share-based compensation expense in the statements of income over the vesting period based on the fair value of the stock option at the grant date. The pricing model we use for determining fair values of the purchase option is the Black-Scholes Pricing Model. Valuations derived from this model are subject to ongoing internal and external verification and review. The model uses market-sourced inputs such as interest rates, market prices and volatilities. Selection of these inputs involves management s judgment and may impact net income. In particular, prior to July 1, 2009, we used volatility rates based upon a sample of comparable companies our industry and we now use a volatility rate based on the performance of our common stock; which yields a higher rate. In addition we use a risk-free interest rate, which is the rate on U.S. Treasury instruments, for a security with a maturity that approximates the estimated remaining expected term of the stock option.

We account for goodwill in accordance with FASB ASC Topic 350, *Intangibles Goodwill and Other.* FASB ASC Topic 350 prohibits the amortization of goodwill and intangible assets with indefinite lives and requires these assets be reviewed for impairment at least annually. We operate two reportable and operating segments (Pac-Van and Royal Wolf). All of our goodwill was allocated between these two reporting units. We perform an annual impairment test on goodwill at June 30 using the two-step process required under FASB ASC Topic 350. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any.

At June 30, 2010, we performed the first step of the two-step impairment test and compared the fair value of each reporting unit to its carrying value. In assessing the fair value of the reporting units, we considered both the market approach and the income approach. Under the market approach, the fair value of the reporting unit was determined on a weighted-average range of multiples to adjusted EBITDA. Under the income approach, the fair value of the reporting unit was based on the present value of estimated cash flows. The income approach was dependent on a number of significant management assumptions, including estimated future revenue growth rates, gross margins on sales, operating margins, capital expenditures and discount rates. Each approach was given equal weight in arriving at the fair value of the reporting unit. If the carrying value of the net assets of any reporting unit would have exceeded its fair value, a step-two impairment test would have been performed. In a step-two test, we would be required to determine the implied fair value of the goodwill and compare it to the carrying value of the goodwill. Generally, this would involve allocating the fair value of the reporting unit to the respective assets and liabilities (as if the reporting unit had been acquired in separate and individual business combination and the fair value was the price paid to acquire it) with the excess of the fair value of the reporting unit over the amounts assigned to their respective assets and liabilities being the implied fair value of goodwill. It was determined that the fair value of the Royal Wolf reporting unit exceeded the carrying values of the net assets at June 30, 2010. However, the fair value of the Pac-Van reporting unit was less than the carrying values the net assets at June 30, 2010 and, therefore, we performed a step-two impairment test for Pac-Van. In the step-two test for Pac-Van, the implied value of its goodwill was less than the carrying value of goodwill, resulting in an impairment charge of $7,633,000 at June 30, 2010. The Company had not recorded an impairment charge to goodwill prior to June 30, 2010.

We would also consider performing impairment tests during an interim reporting period in which significant events or changes in circumstances indicate that a permanent impairment may have occurred. Some factors we consider important which could trigger such an impairment review include (1) significant underperformance relative to historical, expected or projected future operating results; (2) significant changes in the manner of our use of the acquired assets or the strategy for our overall business; (3) significant changes during the period in our market capitalization relative to net book value; and (4) significant negative industry or general economic trends. At December 31, 2010, there were no significant changes in events or circumstances that were not existing or considered since the last annual test at Royal Wolf or Pac-Van. However, if Pac-Van s operating results worsen for the remainder of the current fiscal year, a potential step-one impairment would most likely exist again at year-end. The range of the potential impairment would vary depending on the range of valuation assumptions used and could be significant.

Intangible assets include those with indefinite (trademark and trade name), and finite (primarily customer base and lists, non-compete agreements and deferred financing costs) useful lives. Customer base and lists and non-compete agreements are amortized on the straight-line basis over the expected period of benefit which range from one to ten

years. Costs to obtaining long-term financing are deferred and amortized over the term of the related debt using the straight-line method. Amortizing the deferred financing costs using the straight-line method does not produce significantly different results than that of the effective interest method. We review intangibles (those assets resulting from acquisitions) at least annually for impairment or when events or circumstances indicate these assets might be impaired. We test impairment using historical cash flows and other relevant facts and circumstances as the primary basis for its estimates of future cash flows. This process requires the use of estimates and assumptions, which are subject to a high degree of judgment.

We determined that, as a result of changes in market conditions and other factors in the U.S., an impairment charge to the customer base acquired in the Pac-Van acquisition was required to be recorded at both June 30, 2009 and June 30, 2010; and, as of June 30, 2010, to the trade name. To be more in line with the expected revenue stream of the customer base, we recorded the June 30, 2009 impairment charge of $689,000 by revising the method of amortization from a straight-line to an accelerated basis. The June 30, 2010 impairment charge to the customer base and trade name of $329,000 and $190,000, respectively, was recorded pursuant to an evaluation, which determined that the respective fair values were less than the carrying values. These impairment charges were included as a part of depreciation and amortization.

In preparing our consolidated financial statements, we recognize income taxes in each of the jurisdictions in which we operate. For each jurisdiction, we estimate the actual amount of taxes currently payable or receivable as well as deferred tax assets and liabilities attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance would be provided for those deferred tax assets for which it is more likely than not that the related benefits will not be realized. In determining the amount of the valuation allowance, we consider estimated future taxable income as well as feasible tax planning strategies in each jurisdiction. If we determine that we will not realize all or a portion of our deferred tax assets, we would increase our valuation allowance with a charge to income tax expense or offset goodwill if the deferred tax asset was acquired in a business combination. Conversely, if we determine that we will ultimately be able to realize all or a portion of the related benefits for which a valuation allowance has been provided, all or a portion of the related valuation allowance would be reduced with a credit to income tax expense except if the valuation allowance was created in conjunction with a tax asset in a business combination.

Reference is made to Note 2 of Notes to Condensed Consolidated Financial Statements for a further discussion of our significant accounting policies.

Impact of Recently Issued Accounting Pronouncements

Reference is made to Note 2 of Notes to Condensed Consolidated Financial Statements for a discussion of recently issued accounting pronouncements that could potentially impact us.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the sensitivity of income to changes in interest rates, foreign exchanges and other market-driven rates or prices. Exposure to interest rates and currency risks arises in the normal course of our business and we may use derivative financial instruments to hedge exposure to fluctuations in foreign exchange rates and interest rates. We believe we have no material market risks to our operations, financial position or liquidity as a result of derivative activities, including forward-exchange contracts.

Reference is made to Note 5 of Notes to Condensed Consolidated Financial Statements for a discussion of financial instruments.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports we file and submit under the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in accordance with SEC guidelines and that such information is communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure based on the definition of disclosure controls and procedures in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. In designing and evaluating our disclosure controls and procedures, we recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and that our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures in reaching that level of reasonable assurance.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures, as required by Exchange

Act Rule 13a-15(b), as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level. There were no changes in our internal control over financial reporting during the quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

In evaluating our forward-looking statements, readers should specifically consider risk factors that may cause actual results to vary from those contained in the forward-looking statements. Risk factors associated with our business are included, but not limited to, our Annual Report on Form 10-K for the year ended June 30, 2010, as filed with the SEC on September 24, 2010 (Annual Report). There have been no material changes to the risk factors disclosed in our Annual Report and other subsequent filings with the SEC.

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

None that have not been previously reported.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

On December 9, 2010, the Registrant held its Annual Meeting of Stockholders. A total of 21,327,753 shares of the Registrant s Common Stock voted and the following are the results of the proposals:

1. To elect two Class A directors to serve for a term of three years and until their successors are elected and qualified:

Nominee	For	Withheld	Broker Non-Votes
David M. Connell	11,166,768	40,042	10,120,943
Manuel Marrero	11,205,768	1,042	10,120,943

2. To ratify the selection of Crowe Horwath LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2011:

For	21,326,871
Against	842
Abstain	40

Item 5. Other Information

None.

Item 6. Exhibits

See Exhibit Index Attached.

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SIGNATURES

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

Date: February 11, 2011

GENERAL FINANCE CORPORATION

By: /s/ Ronald F. Valenta
Ronald F. Valenta
Chief Executive Officer

By: /s/ Charles E. Barrantes
Charles E. Barrantes
Chief Financial Officer

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EXHIBIT INDEX

Exhibit Number	Exhibit Description
10.1	Employment Agreement dated October 5, 2010 with Theodore M. Mourouzis (incorporated by reference to Registrant s Form 8-K filed October 5, 2010)
10.2	Variation Letter executed on December 23, 2010 among Australia and New Zealand Banking Group Limited, GFN Australasia Holdings Pty Ltd., GFN Australasia Finance Pty Ltd., RWA Holdings Pty Ltd., Royal Wolf Trading Australia Pty Ltd. and Royal Wolf Hi-Tech Pty Ltd. (incorporated by reference to Registrant s Form 8-K filed December 28, 2010)
31.1	Certification of Chief Executive Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a)
31.2	Certification of Chief Financial Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a)
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. §1350
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. §1350