

General Finance CORP  
Form 10-Q  
November 03, 2006

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2006

OR

☐ 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 333-129830

**GENERAL FINANCE CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**32-0163571**  
(I.R.S. Employer  
Identification No.)

**260 S. Los Robles, Suite 217**  
**Pasadena, CA 91101**  
(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 ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

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

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Yes ☒ x

No ☐ o

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:  
10,500,000 shares issued and outstanding as of October 31, 2006.

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**GENERAL FINANCE CORPORATION**

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**PART I.**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**GENERAL FINANCE CORPORATION AND SUBSIDIARIES**  
**(A Development Stage Company)**  
**CONSOLIDATED BALANCE SHEET (UNAUDITED)**

**ASSETS**

September 30, 2006  
(unaudited)

## Current assets:

|  |    |            |
|--|----|------------|
| Cash                                   | \$ | 137,053    |
| Cash equivalents held in trust account |    | 67,215,412 |
| Prepaid insurance                      |    | 38,250     |
| Total current assets                   |    | 67,390,715 |
| Office equipment                       |    | 3,132      |
| Deferred income taxes                  |    | 2,600      |
| Other assets                           |    | 421,264    |
| Total assets                           | \$ | 67,817,711 |

**LIABILITIES AND STOCKHOLDERS' EQUITY**

## Current liabilities:

|   |    |           |
|---|----|-----------|
| Accounts payable  | \$ | 275,685   |
| Accrued liabilities, including accrued interest of \$3,682 on borrowings from related party |    | 181,663   |
| Income taxes payable  |    | 258,900   |
| Deferred underwriting fees  |    | 1,380,000 |
| Borrowings from related party   |    | 700,000   |
| Total current liabilities   |    | 2,796,248 |

|   |            |
|---|------------|
| Common stock subject to possible conversion, 1,724,138 shares at conversion value | 13,058,100 |
|---|------------|

|             |   |
|-------------|---|
| Commitments | - |
|-------------|---|

## Stockholders' equity:

|   |            |
|---|------------|
| Preferred stock, \$.0001 par value: 1,000,000 shares authorized; no shares outstanding  | -          |
| Common stock, \$.0001 par value: 100,000,000 shares authorized; 10,500,000 shares outstanding (including 1,724,138 shares subject to possible conversion) | 1,050      |
| Additional paid-in capital  | 51,674,033 |
| Earnings accumulated during the development stage   | 288,280    |
| Total stockholders' equity  | 51,963,363 |

|  |    |            |
|--|----|------------|
| Total liabilities and stockholders' equity | \$ | 67,817,711 |
|--|----|------------|

See notes to the consolidated financial statements.

**GENERAL FINANCE CORPORATION AND SUBSIDIARIES**  
**(A Development Stage Company)**  
**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

|   | Three months<br>ended<br>September 30,<br>2006<br>(unaudited) | Nine months<br>ended<br>September 30,<br>2006<br>(unaudited) | October 14, 2005<br>(inception)<br>to September 30, 2006<br>(unaudited) |
|---|---|--|---|
| General and administrative expenses             | \$ 702,792  | \$ 767,003   | \$ 770,512  |
| Operating loss                                  | (702,792)   | (767,003)  | (770,512)   |
| Other income:                                   |   |  |   |
| Interest expense                                | (3,682)   | (3,682)  | (3,682)   |
| Interest income                                 | 661,171   | 1,216,274  | 1,216,274   |
| Income (loss) before provision for income taxes | (45,303)  | 445,589  | 442,080   |
| Provision (benefit) for income taxes            | (42,700)  | 153,800  | 153,800   |
| Net income (loss)                               | \$ (2,603)  | \$ 291,789   | \$ 288,280  |
| Net income per share:                           |   |  |   |
| Basic   | \$ —  | \$ 0.04  | \$ 0.05   |
| Diluted   | \$ —  | \$ 0.03  | \$ 0.04   |
| Weighted average shares outstanding:            |   |  |   |
| Basic   | 10,500,000  | 7,359,890  | 6,026,492   |
| Diluted   | 12,191,659  | 8,437,991  | 6,862,633   |

See notes to the consolidated financial statements.

**GENERAL FINANCE CORPORATION AND SUBSIDIARIES**  
**(A Development Stage Company)**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)**

|   | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid-In<br>Capital | Earnings<br>Accumulated<br>During the<br>Development<br>Stage | Total<br>Stockholders'<br>Equity |
|---|------------------------|------------------------|----------------------------------|---|----------------------------------|
| Balance at October 14, 2005<br>(inception)  | -                      | \$ -                   | \$ -                             | \$ -  | -                                |
| Sale of common stock to initial<br>stockholder  | 1,875,000              | 188                    | 249,812                          | -   | 250,000                          |
| Sale of warrants  | -                      | -                      | 700,000                          | -   | 700,000                          |
| Sale of 7,500,000 units and<br>underwriters' purchase option, net<br>of underwriters' discount and<br>offering expenses | 7,500,000              | 750                    | 55,254,754                       | -   | 55,255,504                       |
| Sale of 1,125,000 units for<br>over-allotment   | 1,125,000              | 112                    | 8,319,667                        | -   | 8,319,779                        |
| Proceeds subject to possible<br>conversion of 1,724,138 shares  | -                      | -                      | (12,857,800)                     | -   | (12,857,800)                     |
| Share-based compensation  | -                      | -                      | 7,600                            | -   | 7,600                            |
| Net income  | -                      | -                      | -                                | 288,280   | 288,280                          |
| Balance at September 30, 2006   | 10,500,000             | \$ 1,050               | \$ 51,674,033                    | \$ 288,280  | \$ 51,963,363                    |

See notes to the consolidated financial statements.

**GENERAL FINANCE CORPORATION AND SUBSIDIARIES**  
**(A Development Stage Company)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

|   | Nine months ended<br>September 30, 2006<br>(unaudited) | October 14, 2005<br>(inception)<br>to September 30, 2006<br>(unaudited) |
|---|--|---|
| Cash flows from operating activities:   |  |   |
| Net income  | \$ 291,789   | \$ 288,280  |
| Depreciation and amortization   | 369  | 369   |
| Share-based compensation expense  | 7,600  | 7,600   |
| Deferred income taxes   | (2,600)  | (2,600)   |
| Changes in operating assets and liabilities:  |  |   |
| Prepaid expenses  | (38,250)   | (38,250)  |
| Other assets  | —  | (3,688)   |
| Accounts payable and accrued liabilities  | 324,283  | 457,348   |
| Income taxes payable  | 258,900  | 258,900   |
| Interest deferred for common stock subject to possible conversion, net of \$103,300 income tax effect | 200,300  | 200,300   |
| Net cash provided by operating activities   | 1,042,391  | 1,168,259   |
| Cash flows from investing activities:   |  |   |
| Deposit related to proposed acquisition   | (417,945)  | (417,945)   |
| Purchases of office equipment   | (3,132)  | (3,132)   |
| Cash equivalents held in trust account  | (67,215,412)   | (67,215,412)  |
| Net cash used by investing activities   | (67,636,489)   | (67,636,489)  |
| Cash flows from financing activities:   |  |   |
| Borrowings from revolving line of credit with related party   | 700,000  | 700,000   |
| Proceeds from sale of units, net  | 65,389,550   | 65,389,550  |
| Proceeds from private placement   | 700,000  | 700,000   |
| Proceeds from sale of common stock to initial stockholder   | -  | 250,000   |
| Payment of accrued offering costs   | (233,774)  | (434,267)   |
| Net cash provided by financing activities   | 66,555,776   | 66,605,283  |
| Net (decrease) increase in cash   | (38,322)   | 137,053   |
| Cash at beginning of period   | 175,375  | -   |
| Cash at end of period   | \$ 137,053   | \$ 137,053  |
| <b>Non-cash financing activity:</b>   |  |   |
| Accrued deferred underwriting fees  | \$ 1,380,000   | \$ 1,380,000  |

See notes to the consolidated financial statements.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### Note 1. Organization and Business Operations

General Finance Corporation (the “Company”) was incorporated in Delaware on October 14, 2005 for the purpose of effecting a merger, capital stock exchange, asset acquisition or other similar business combination with one or more operating businesses. The Company has selected December 31 as its fiscal year-end.

As of September 30, 2006, the Company had not yet commenced any operations. All activity through September 30, 2006 related to the Company’s formation, its initial public offering of the securities (the “IPO”) completed in April 2006, activities to identify an operating business to acquire and negotiating and entering into an agreement to acquire an operating business. See Notes 3 and 9.

### Note 2. Summary of Significant Accounting Policies

#### Basis of Presentation

The consolidated financial statements have been prepared by the Company without audit on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”), certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been omitted or condensed. It is management’s belief that the disclosures made are adequate to make the information presented not misleading and reflect all significant adjustments (consisting primarily of normal recurring adjustments) necessary for a fair presentation of financial position and results of operations for the periods presented. It is recommended that these consolidated financial statements be read in conjunction with the financial statements and notes thereto as of December 31, 2005 and for the period from inception (October 14, 2005) to December 31, 2005 included with the prospectus filed with the SEC in connection with the Company’s IPO.

#### Principles of Consolidation

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

#### Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Cash Equivalents

The Company considers highly liquid investments with maturities of three months or less, when purchased, to be cash equivalents. Cash equivalents held in the Trust Account (see Note 3) are to be held to maturity, and accordingly, are stated at current market value. Funds held in the Trust Account are restricted (see Note 3).

#### Deferred Underwriting Fees

Deferred underwriting fees of up to \$1,380,000 accrued in connection with the Company’s IPO are payable if and when the Company effects a business combination (see Note 3).

Common Stock Subject to Possible Conversion

Common stock subject to possible conversion amounts to approximately 20% of the funds held in the trust account after subtracting deferred underwriting fees and the estimated tax liability associated with interest income earned on the funds held in trust (see Note 3).

### Derivative Financial Instruments

Derivative financial instruments consist of warrants issued as part of the IPO and a purchase option that was sold to the representative of the underwriters as described in Note 3. Based on Emerging Issues Task Force 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settle in, a Company's Own Stock, the issuance of the warrants and the sale of the purchase option were reported in stockholders' equity and, accordingly, there is no impact on the Company's financial position and results of operations, except for the \$100 in proceeds from the sale of the purchase option. Subsequent changes in the fair value will not be recognized as long as the warrants and purchase option continue to be classified as equity instruments.

At the date of issuance, the Company determined the purchase option had a fair market value of approximately \$641,000 using a Black-Scholes pricing model.

### Accounting for Stock Options

For the issuances of stock options, the Company follows the fair value provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), *Share-Based Payment* ("No. 123R"). SFAS No. 123R replaces SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123R 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.

### Reverse Stock Split

In March 2006, the Company effected a 3-for-4 reverse stock split of its common stock. The accompanying financial statements include adjustments to the common stock share amounts based on the reverse stock split for all periods presented.

### Income Taxes

The Company accounts for income taxes under SFAS No. 109, *Accounting for Income Taxes*. Accordingly, the Company uses the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on temporary differences between financial reporting and income tax basis of assets and liabilities at the balance sheet date multiplied by the applicable tax rates.

### Net Income per Common Share

Basic net income per share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the periods. Diluted net income per 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 entity. The potential dilutive securities the Company has outstanding are warrants and stock options (see Notes 3 and 8).

### Recently Issued Accounting Pronouncements

Management does not believe that any recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

## **Note 3. Initial Public Offering**

On April 10, 2006, the Company issued and sold 7,500,000 units ("Units") in its IPO, and on April 13, 2006, the Company issued and sold an additional 1,125,000 Units that were subject to the underwriters' over-allotment option. Each Unit consists of one share of common stock and one warrant. Each warrant entitles the holder to purchase from the Company one share of common stock at an exercise price of \$6.00 commencing the later of the completion of a business combination with a target business or one year from the effective date of the IPO (April 5, 2007) and expiring April 5, 2010 ("Warrants"). The Warrants will be redeemable at a price of \$.01 per Warrant upon 30 days' notice after the Warrants become exercisable, only in the event that the last sale price of the common stock is at least \$11.50 per share for any 20 trading days within a 30 trading day period ending on the third day prior to the date on which notice of redemption is given.

The public offering price of each Unit was \$8.00, and the gross proceeds of the IPO were \$69,000,000 (including proceeds from the exercise of the over-allotment option). Of the gross proceeds: (i) \$65,000,000 was deposited into a trust account (the "Trust Account"), which amount included \$1,380,000 of deferred underwriting fees; (ii) the underwriters received \$3,450,000 as underwriting fees (excluding the deferred underwriting fees); and (iii) the Company retained \$550,000 for offering expenses. In addition, the Company deposited into the Trust Account the \$700,000 that it received from a private placement of 583,333 warrants to two executive officers (one of whom is also a director) for \$1.20 per warrant immediately prior to the closing of the IPO. These warrants were identical to the Warrants issued in the IPO.

In connection with the IPO, two executive officers (one of whom is a director) entered into agreements with the representative of the underwriters that during the 40 trading day period commencing at least 60 days after the IPO, they will collectively purchase Warrants in the public market at prices not to exceed \$1.20 per Warrant up to an aggregate purchase price of \$700,000. These purchases have been completed.

In connection with the IPO, the Company sold to the representative of the underwriters for \$100 an option to purchase 750,000 units for \$10.00 per Unit. These units are identical to the Units issued in the IPO except that the warrants included in the units have an exercise price of \$7.20. This option may be exercised on a cashless basis. This option expires April 5, 2011.

The funds in the Trust Account will be distributed to the Company (subject to stockholder claims described below) upon consummation of a business combination with one or more operating businesses (the "Business Combination") whose collective market value is at least 80% of the Company's net assets at the time of the acquisition. The Company may use the funds in the Trust Account to complete the Business Combination or for such purposes as the Company determines following the Business Combination. If the Company does not consummate a Business Combination by October 5, 2007 (or April 5, 2008 if certain extension criteria have been satisfied), the funds in the Trust Account will be distributed to the stockholders then holding the shares issued in the IPO (the "Public Stockholders"). Pending distribution to the Company or the Public Stockholders, the funds in the Trust Account may be invested in government securities and certain money market funds.

The Company has agreed to submit the Business Combination for approval of its stockholders even if the nature of the transaction would not require stockholder approval under applicable state law. The Company will not consummate the Business Combination unless it is approved by a majority of the Public Stockholders and Public Stockholders owning less than 20% of the shares issued in the IPO vote against the Business Combination and exercise the conversion rights described below. The Company's stockholders prior to the consummation of the IPO (the "Pre-IPO Stockholders") have agreed to vote their shares of common stock owned prior to the IPO in accordance with the vote of the majority in interest of the Public Stockholders. These voting provisions will not be applicable after the consummation of the first Business Combination.

With respect to a Business Combination that is approved and consummated, any Public Stockholder who voted against the Business Combination may demand that the Company convert his or her shares into cash. The per share conversion price will equal the amount in the Trust Account, calculated as of two business days prior to the consummation of the proposed Business Combination, divided by the number of shares of common stock held by Public Stockholders at the consummation of the IPO. Accordingly, a Business Combination may be consummated with Public Stockholders holding 19.99% of the aggregate number of shares owned by all Public Stockholders converting such shares into cash from the Trust Account. Such Public Stockholders are entitled to receive their per-share interest in the Trust Account computed without regard to the shares held by the Pre-IPO Stockholders.

The Company's Certificate of Incorporation provides for mandatory liquidation of the Company in the event that the Company does not consummate a Business Combination within the dates set forth above.



#### **Note 4. Concentrations of Credit Risk**

The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on its cash balances. The Company did not have cash on deposit exceeding the insured limit as of September 30, 2006. Marketable securities held at September 30, 2006 consisted of United States Treasury Bills that matured on October 12, 2006.

#### **Note 5. Limited Recourse Revolving Line of Credit**

The Company has an unsecured limited recourse revolving line of credit from Ronald F. Valenta, a director and executive officer, pursuant to which the Company may from time to time borrow up to \$1,750,000 outstanding at one time. The line of credit terminates upon the earliest to occur of: (i) the completion of the Business Combination, (ii) the liquidation of the Company, and (iii) April 5, 2008, except that advances may be made after April 5, 2008 solely to pay reasonable costs and expenses in connection with the liquidation of the Company.

The line of credit bears interest at 8% per annum and will not be payable from the funds in the Trust Account, which funds will be distributed to the Public Stockholders if the Company does not consummate the initial Business Combination within the required time periods. As of September 30, 2006, \$700,000 was outstanding under the line of credit.

#### **Note 6. Related Party Transactions**

For the period from October 14, 2005 (inception) to December 31, 2005, Ronald F. Valenta paid for deferred offering costs and other assets on behalf of the Company totaling \$13,688. There were no specific repayment terms and the amount was paid in full to Mr. Valenta in December 2005. In addition, the Company has a limited recourse revolving line of credit agreement with Mr. Valenta in the amount of \$1,750,000 (see Note 5).

The Company utilizes certain administrative, technology and secretarial services from affiliates of officers; as well as certain limited office space provided by an affiliate of Mr. Valenta. Until the acquisition of a target business by the Company, the affiliates have agreed to make such services available to the Company free of charge, as may be required by the Company from time to time; with the exception of the reimbursement of certain out-of-pocket costs incurred on behalf of the Company. Management does not believe the value of these services to be significant.

#### **Note 7. Preferred Stock**

The Company is authorized to issue 1,000,000 shares of preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors.

#### **Note 8. 2006 Stock Option Plan**

On August 29, 2006, the Board of Directors of the Company adopted the General Finance Corporation 2006 Stock Option Plan ("2006 Plan"), which is subject to approval of stockholders. Under the 2006 Plan, the Company may issue to directors, employees, consultants and advisers up to 1,500,000 shares of its common stock pursuant to options to be granted under the 2006 Plan. The options may be 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. The options may not have a term in excess of ten years, and the exercise price of any option may not be less than the fair market value of our common stock on date of grant of the option. Unless sooner terminated, the 2006 Plan will terminate June 30, 2016.

On September 11, 2006, the Company granted to an executive officer options to purchase 225,000 shares at an exercise price equal to the closing market price of the Company's common stock as of that date, or \$7.30, with a vesting period of five years. Stock-based compensation expense of \$7,600 related to these options was recognized in the statements of income, with a corresponding benefit to additional paid-in capital. As of September 30, 2006, there remains \$680,600 of unrecognized compensation expense that will be charged into the statement of income on a straight-line basis over the remaining vesting period.



A deduction is not allowed for income tax purposes with respect to non-qualified options until the stock options are exercised or with respect to incentive stock options 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 tax effect of the financial statement expense recorded. The tax effect of the income tax deduction in excess of the financial statement expense, if any, will be recorded as an increase to additional paid-in capital.

The weighted-average fair value of the stock options granted was \$3.06 and determined using the Black-Scholes option-pricing model using the following assumptions: a risk-free interest rate of 4.8% (10-year treasury bill); an expected life of 7.5 years; an expected volatility of 26.5%; and no expected dividend.

#### **Note 9. Proposed Acquisition**

On September 12, 2006, the Company and its newly formed indirect Australian subsidiary, GFN Australasia Finance Pty Limited, entered into a Share Sale Deed (the "Acquisition Agreement") with the shareholders (the "Sellers") of RWA Holdings Pty Limited, an Australian company ("RWA" and collectively, with its subsidiaries, "Royal Wolf"), pursuant to which the Company agreed to purchase all of the outstanding shares of capital stock of RWA (the "Acquisition"). Royal Wolf leases and sells portable storage containers, portable container buildings and freight containers in Australia; and operates customer service centers in every state in Australia.

The aggregate consideration for the Acquisition is \$87.4 million, subject to certain adjustments relating to Royal Wolf's levels of working capital, net tangible assets and container rental equipment at the closing, outstanding obligations under a certain container lease program at the closing, and cost and expenses of any acquisitions completed by Royal Wolf prior to the closing. The aggregate consideration will increase by \$570,000 if the Company's definitive proxy statement in connection with the acquisition has not been cleared by the SEC by January 17, 2007 and by an additional \$570,000 if such clearance has not been obtained by February 17, 2007. The financial terms and provisions of the Acquisition Agreement are denominated in Australian dollars. For convenience, these Australian dollar amounts have been converted into U.S. dollars using the September 8, 2006 exchange rate. On that date, one Australian dollar was equivalent to 0.7599 U.S. dollars. The currency exchange rate in effect as of the completion of the Acquisition or at any future date may differ; therefore the amounts stated above may change.

The Acquisition is subject to the approval of the Company's stockholders and certain other conditions, including that the Acquisition cannot proceed if holders of 20% or more of the Company's common stock issued in the public offering against the Acquisition and demand that their shares of common stock be converted to cash (see Note 3).

The Acquisition will be accounted for as a reverse acquisition and equity recapitalization, with the Company treated as the "acquired" company for financial reporting purposes. The Acquisition consideration to be paid to the Sellers will be reflected as a distribution to them, and will result in a reduction of stockholders' equity.

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

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," "anticipate," "believe," "estimate," "continue," or the negative of such terms or other similar expressions. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those described in our other Securities

and Exchange Commission filings.

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## Overview

We were formed on October 14, 2005 for the purpose of effecting a merger, capital stock exchange, asset acquisition or other similar business combination with one or more operating businesses.

On April 10, 2006, we completed our initial public offering (“IPO”) of 7,500,000 Units, and on April 13, 2006, we completed the closing of an additional 1,125,000 Units that were subject to the underwriter’s over-allotment option. Each Unit consists of one share of our common stock, par value \$0.0001 per share, (the “Common Stock”) and one Warrant entitling the holder to purchase one share of our Common Stock at a price of \$6.00. The public offering price of each Unit was \$8.00, and we generated gross proceeds of \$69,000,000 in the IPO (including proceeds from the exercise of the over-allotment option). Of the gross proceeds: (i) we deposited \$65,000,000 into a trust account (the “Trust Account”) at JP Morgan Chase NY Bank, maintained by Continental Stock Transfer & Trust Company as trustee, which included \$1,380,000 of deferred underwriting fees; (ii) the underwriters received \$3,450,000 as underwriting fees (excluding the deferred underwriting fees); and (iii) we retained \$550,000 for offering expenses. In addition, we deposited into the Trust Account \$700,000 that we received from the issuance and sale of 583,333 warrants to Ronald F. Valenta, a director and our Chief Executive Officer, and John O. Johnson, our Chief Operating Officer, on April 7, 2006.

The proceeds deposited in the Trust Account will not be released from the Trust Account until the earlier of the completion of a business combination or the expiration of the time period during which we may complete a business combination. The proceeds held in the Trust Account (other than the contingent underwriting discount) may be used as consideration to pay the sellers of a target business with which we complete a business combination. To the extent that our capital stock is used in whole or in part as consideration to effect a business combination, the proceeds held in the Trust Account (other than the contingent underwriting discount) will be used to finance the operations of the target business. We may also use the proceeds held in the Trust Account (other than the contingent underwriting discount) to pay a finder’s fee to any unaffiliated party that provides information regarding prospective targets to us.

## Royal Wolf Acquisition Agreement

On September 12, 2006, we entered into a Share Sale Deed (the “Acquisition Agreement”) with the shareholders (the “Sellers”) of RWA Holdings Pty Limited, an Australian company (“RWA” and collectively, with its subsidiaries, “Royal Wolf”), pursuant to which we agreed to purchase all of the outstanding shares of capital stock of RWA (the “Acquisition”). Royal Wolf leases and sells portable storage containers, portable container buildings and freight containers in Australia; and operates customer service centers in every state in Australia.

The aggregate consideration for the Acquisition is \$87.4 million, subject to certain adjustments relating to Royal Wolf’s levels of working capital, net tangible assets and container rental equipment at the closing, outstanding obligations under a certain container lease program at the closing, and cost and expenses of any acquisitions completed by Royal Wolf prior to the closing. The aggregate consideration will increase by \$570,000 if our definitive proxy statement in connection with the acquisition has not been cleared by the Securities and Exchange Commission by January 17, 2007 and by an additional \$570,000 if such clearance has not been obtained by February 17, 2007. The financial terms and provisions of the Acquisition Agreement are denominated in Australian dollars. For convenience, these Australian dollar amounts have been converted into U.S. dollars using the September 8, 2006 exchange rate. On that date, one Australian dollar was equivalent to 0.7599 U.S. dollars. The currency exchange rate in effect as of the completion of the Acquisition or at any future date may differ; therefore the amounts stated above may change.

We have paid the Sellers a deposit of \$418,000, and must pay additional deposits of \$190,000 on each of November 30, 2006, December 31, 2006 and January 31, 2007 (all deposits would total \$988,000) if the closing of the Acquisition has not occurred by such dates and we do not terminate the Acquisition Agreement. If the closing occurs, the deposits will be applied to reduce the amounts payable to the Sellers at the closing. If the closing does not occur,

the deposits are refundable to us only in certain limited circumstances.

The Acquisition is subject to the approval of our stockholders and certain other conditions.

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## **Results of Operations, Financial Condition and Liquidity**

Our operating expenses totaled \$702,800, \$767,000 and \$770,500, respectively, for the three and nine months ended September 30, 2006, and for the period from inception to September 30, 2006. Operating expenses for the three and nine months ended September 30, 2006 and for the period from inception to September 30, 2006 included costs of \$545,700, \$551,900 and \$551,900, respectively, related to the acquisition of Royal Wolf. These costs are expensed as incurred since we will be treated as the “acquired” company for financial reporting purposes. We also incurred \$434,300 of offering costs in connection with the public offering, all of which has been applied against paid in capital.

We had net interest income earned on marketable securities held in the Trust Account of \$661,200, \$1,216,300 and \$1,216,300, respectively, for the three and nine months ended September 30, 2006, and for the period from inception (October 14, 2005) to September 30, 2006. Interest income excludes earnings on funds held in the Trust Account associated with common stock subject to possible conversion and, except for amounts equal to any taxes payable by us relating to such interest earned, will not be released from the Trust Account until the earlier of the completion of a business combination or the expiration of the time period during which we may complete a business combination.

Interest expense for the periods presented relates to the borrowings on our line of credit provided by Mr. Valenta, our Chief Executive Officer and a director.

We have provided for only an effective tax rate of slightly over 34% on a year and inception to-date basis primarily because the funds deposited in the Trust Account are exempt from state and local taxes. The three months ended September 30, 2006 includes a benefit of approximately \$27,000 for a change in estimate of taxes accrued in a prior period

We can borrow an additional \$1,050,000 under the line of credit from Mr. Valenta. We believe that these borrowings will be sufficient to fund our operations until the consummation of the Acquisition.

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

Market risk is the sensitivity of income to changes in interest rates, foreign exchanges, commodity prices, equity prices, and other market-driven rates or prices. We are not presently engaged in and, if we do not consummate a suitable business combination prior to the prescribed liquidation date of the trust fund, we may not engage in, any substantive commercial business. Accordingly, we are not and, until such time as we consummate a business combination, we will not be, exposed to risks associated with foreign exchange rates, commodity prices, equity prices or other market-driven rates or prices. The net proceeds of our initial public offering held in the trust fund may be invested by the trustee only in United States “government securities” within the meaning of Section 2(a)(16) of the Investment Company Act of 1940 having a maturity of 180 days or less, or in money market funds meeting certain conditions under Rule 2a-7 promulgated under the Investment Company Act of 1940. Given our limited risk in our exposure to government securities and money market funds, we do not view the interest rate risk to be significant.

## **Item 4. Controls and Procedures**

Ronald F. Valenta (our principal executive officer) and Charles E. Barrantes (our principal financial officer) carried out an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2006. Based upon that evaluation, they concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 (the “Exchange Act”) is recorded, processed, summarized and reported, within the time periods specified under the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving an entity’s disclosure objectives. The likelihood of achieving such objectives is affected by limitations inherent in disclosure controls and procedures. These include

the fact that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human failures such as simple errors or mistakes or intentional circumvention of the established process.

There has not been any change in our internal control over financial reporting in connection with the evaluation required by Rule 13a-15(d) under the Exchange Act that occurred during the quarter ended September 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II.**  
**OTHER INFORMATION**

**Item 1. Legal Proceedings.**

None.

**Item 1A. Risk Factors.**

There have been no material changes to the risk factors previously disclosed in the prospectus filed in connection with our IPO.

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

None.

**Item 3. Defaults Upon Senior Securities.**

Not applicable.

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

Not applicable.

**Item 5. Other Information.**

Not applicable.

**Item 6. Exhibits.**

See Exhibit Index Attached.

**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: November 3, 2006

GENERAL FINANCE CORPORATION

By: /s/ Ronald F. Valenta

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Ronald F. Valenta  
Chief Executive Officer

By: /s/ Charles E. Barrantes

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Charles E. Barrantes  
Chief Financial Officer



**EXHIBIT INDEX**

Exhibit

Number Exhibit Description

- 2.1 Share Sale Deed, dated as of September 12, 2006, by and among General Finance Corporation, GFN Australasia Finance Pty Limited, Equity Partners Two Pty Limited, Cetro Pty Limited, FOMJ Pty Limited, FOMM Pty Limited, TWE Pty Limited, Michael Paul Baxter, James Harold Warren, Paul Henry Jeffery and Peter Linden McCann.\*
- 10.1 2006 Stock Option Plan (corrected from version filed with Form 8-K on September 12, 2006).
- 10.2 Forms of Incentive Stock Option Agreement and Non-Qualified Stock Option Agreement used under the 2006 Stock Option Plan\*
- 10.3 Employment Agreement dated September 11, 2006 with Charles E. Barrantes\*
- 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

\*Incorporated by reference from Registrant's Current Report on Form 8-K filed September 12, 2006.