General Finance CORP
Form 10-Q
February 13, 2013
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U. S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2012

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 001-32845

(Exact Name of Registrant as Specified in its Charter)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes ¨ No x

State the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 22,033,231 shares outstanding as of February 4, 2013.

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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, 2012	December 31, 2012 (Unaudited)
Assets		
Cash and cash equivalents	$ 7,085	$ 5,594
Restricted cash		1,000
Trade and other receivables, net of allowance for doubtful accounts of $2,538 and $2,232 at June 30, 2012 and December 31, 2012, respectively	35,443	33,420
Inventories	31,206	42,472
Prepaid expenses and other	5,029	5,601
Property, plant and equipment, net	12,732	18,435
Lease fleet, net	259,458	289,983
Goodwill	68,449	72,664
Other intangible assets, net	18,158	20,240
Total assets	$ 437,560	$ 489,409
Liabilities		
Trade payables and accrued liabilities	$ 35,964	$ 36,480
Income taxes payable	593	404
Unearned revenue and advance payments	12,151	14,740
Senior and other debt	174,092	210,937
Deferred tax liabilities	20,763	24,018
Total liabilities	243,563	286,579
Commitments and contingencies (Note 9)		
Equity		
Cumulative preferred stock, $.0001 par value: 1,000,000 shares authorized; 26,750 shares issued and outstanding (in series) and liquidation value of $1,438 and $2,188 at June 30, 2012 and December 31, 2012, respectively	1,395	2,145
Common stock, $.0001 par value: 100,000,000 shares authorized; 22,019,965 and 22,026,631 shares outstanding at June 30, 2012 and December 31, 2012, respectively	2	2
Additional paid-in capital	112,865	113,301
Accumulated other comprehensive income	5,809	7,156
Accumulated deficit	(22,877)	(20,107)
Total General Finance Corporation stockholders equity	97,194	102,497
Equity of noncontrolling interests	96,803	100,333
Total equity	193,997	202,830
Total liabilities and equity	$ 437,560	$ 489,409

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, 2011	Quarter Ended December 31, 2012	Six Months Ended December 31, 2011	Six Months Ended December 31, 2012
Revenues				
Sales:				
Lease inventories and fleet	$ 22,935	$ 24,276	$ 51,144	$ 47,998
Manufactured units		7,731		7,731
	22,935	32,007	51,144	55,729
Leasing	25,172	31,345	49,756	61,012
	48,107	63,352	100,900	116,741
Costs and expenses				
Cost of sales:				
Lease inventories and fleet (exclusive of the items shown separately below)	16,756	18,091	37,233	35,403
Manufactured units		6,549		6,549
Direct costs of leasing operations	10,065	11,397	19,952	22,381
Selling and general expenses	11,181	13,342	22,395	26,275
Depreciation and amortization	4,682	5,287	9,240	10,587
Operating income	5,423	8,686	12,080	15,546
Interest income	33	17	128	40
Interest expense	(2,888)	(2,630)	(6,290)	(5,855)
Foreign currency exchange gain (loss) and other	(764)	107	323	468
	(3,619)	(2,506)	(5,839)	(5,347)
Income before provision for income taxes	1,804	6,180	6,241	10,199
Provision for income taxes	686	2,349	2,372	3,876
Net income	1,118	3,831	3,869	6,323
Preferred stock dividends	(44)	(43)	(89)	(86)
Noncontrolling interest	(1,007)	(2,067)	(2,676)	(3,553)
Net income attributable to common stockholders	$ 67	$ 1,721	$ 1,104	$ 2,684
Net income per common share:				
Basic	$ 0.00	$ 0.08	$ 0.05	$ 0.12
Diluted	0.00	0.08	0.05	0.12
Weighted average shares outstanding:				
Basic	22,013,299	22,026,631	22,013,299	22,025,690
Diluted	22,255,264	22,631,194	22,255,167	22,630,253

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 COMPREHENSIVE INCOME

(In thousands, except share and per share data)

(Unaudited)

	Quarter Ended December 31,		Six Months Ended December 31,	
	2011	**2012**	**2011**	**2012**
Net income	$ 1,118	$ 3,831	$ 3,869	$ 6,323
Other comprehensive income (loss):				
Fair value change in derivative, net of income tax provision (benefit) of $62 and $(96) for the quarter and six months ended December 31, 2012, respectively		144		(224)
Cumulative translation adjustment	4,662	(315)	(5,376)	2,930
Total comprehensive income (loss)	5,780	3,660	(1,507)	9,029
Comprehensive loss (gain) allocated to noncontrolling interests	(3,338)	(1,996)	2,464	(4,912)
Comprehensive income allocable to General Finance Corporation stockholders	$ 2,442	$ 1,664	$ 957	$ 4,117

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 EQUITY

(In thousands, except share and share data)

(Unaudited)

	Cumulative Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total General Finance Corporation Stockholders Equity	Equity of Noncontrolling Interests	Total Equity
Balance at June 30, 2012	$ 1,395	$ 2	$ 112,865	$ 5,809	$ (22,877)	$ 97,194	$ 96,803	$ 193,997
Share-based compensation			514			514	132	646
Preferred stock dividends			(86)			(86)		(86)
Dividends on capital stock by subsidiary							(2,345)	(2,345)
Purchases of subsidiary capital stock							(58)	(58)
Issuance of 6,666 shares of common stock			8			8		8
Issuance of 750 shares of cumulative preferred stock	750					750		750
Noncontrolling interest at acquisition of Southern Frac (Note 4)							889	889
Net income					2,770	2,770	3,553	6,323
Fair value change in derivative, net of related tax effect				(112)		(112)	(112)	(224)
Cumulative translation adjustment				1,459		1,459	1,471	2,930
Total comprehensive income						4,117	4,912	9,029
Balance at December 31, 2012	$ 2,145	$ 2	$ 113,301	$ 7,156	$ (20,107)	$ 102,497	$ 100,333	$ 202,830

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, 2011	2012
Net cash provided by (used in) operating activities (Note 10)	$ (763)	$ 10,614
Cash flows from investing activities:		
Business acquisitions, net of cash acquired		(12,890)
Proceeds from sales of property, plant and equipment	328	109
Purchases of property, plant and equipment	(1,273)	(4,467)
Proceeds from sales of lease fleet	13,771	13,585
Purchases of lease fleet	(28,625)	(37,720)
Other intangible assets	(71)	(130)
Net cash used in investing activities	(15,870)	(41,513)
Cash flows from financing activities:		
Repayments of equipment financing activities	(274)	(264)
Repayment of senior credit facility and subordinated note (Note 5)		(79,175)
Proceeds from senior and other debt borrowings, net	17,574	112,630
Deferred financing costs		(1,407)
Proceeds from issuances of common stock		8
Purchases of subsidiary capital stock		(58)
Dividends on capital stock by subsidiary		(2,345)
Preferred stock dividends	(89)	(86)
Net cash provided by financing activities	17,211	29,303
Net increase (decrease) in cash	578	(1,596)
Cash and equivalents at beginning of period	6,574	7,085
The effect of foreign currency translation on cash	(961)	105
Cash and equivalents at end of period	$ 6,191	$ 5,594

Non-cash investing and financing activities:

On October 1, 2012, the Company issued convertible cumulative preferred stock of $750 and a noninterest-bearing seller holdback note of $2,000 as part of the consideration for a business acquisition (see Note 4)

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

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 Manufacturing Corporation, a Delaware corporation (GFNMC), and its subsidiary, Southern Frac, LLC, a Texas limited liability company (Southern Frac); Royal Wolf Holdings Limited (formerly GFN Australasia Holdings Pty Ltd)., an Australian corporation publicly traded on the Australian Securities Exchange (RWH); and its Australian and New Zealand subsidiaries (collectively, Royal Wolf); Pac-Van, Inc., an Indiana corporation, and its Canadian subsidiary, PV Acquisition Corp., an Alberta corporation, doing business as (d.b.a.) Container King (collectively Pac-Van).

At December 31, 2012, the Company has two geographic (and three operating) units, Royal Wolf, which leases and sells storage containers, portable container buildings and freight containers in Australia and New Zealand, which is referred geographically by the Company to be the Asia-Pacific (or Pan-Pacific) area; Pac-Van, which leases and sells storage, office and portable liquid storage tank containers, modular buildings and mobile offices in North America; and Southern Frac, which manufactures portable liquid storage tank containers in North America (see Note 4).

On May 31, 2011, the Company completed an initial public offering (IPO) in Australia of a noncontrolling interest in RWH. A total of 50,000,000 shares of capital stock were issued to the Australian market and an additional 188,526 shares were issued to the non-employee members of the RWH Board of Directors, the RWH chief executive officer and the RWH chief financial officer. At the IPO date and through December 31, 2012, RWH had a total of 100,387,052 shares of capital stock issued and outstanding, of which GFN U.S. owns a direct (and the Company an indirect) majority interest of over 50%.

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 U.S. GAAP 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, 2013. 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, 2012 filed with the Securities and Exchange Commission (SEC).

Certain reclassifications have been made to conform to the current period presentation. Unless otherwise indicated, references to FY 2012 and FY 2013 are to the six months ended December 31, 2011 and 2012, respectively.

Principles of Consolidation

The condensed 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 currencies for its foreign operations are the respective local currencies, the Australian (AUS) and New Zealand (NZ) dollars in the Asia-Pacific area and the Canadian (C) dollar in North America. 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.

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GENERAL FINANCE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP 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. Material estimates that are particularly susceptible to significant changes include assumptions used in assigning value to identifiable intangible assets at the acquisition date, the assessment for impairment of goodwill, the assessment for impairment of other intangible assets, the allowance for doubtful accounts, share-based compensation expense, residual value of the lease fleet and deferred tax assets and liabilities. Assumptions and factors used in the estimates are evaluated on an annual basis or whenever events or changes in circumstances indicate that the previous assumptions and factors have changed. The results of the analysis could result in adjustments to estimates.

Inventories

Inventories are stated at the lower of cost or fair value (net realizable value). Net realizable value is the estimated selling price in the ordinary course of business. Expenses of marketing, selling and distribution to customers, as well as costs of completion are estimated and are deducted from the estimated selling price to establish net realizable value. Costs are assigned to individual items of inventory on the basis of specific identification and include expenditures incurred in acquiring the inventories and bringing them to their existing condition and location. 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, 2012	**December 31, 2012**
Finished goods	$ 30,053	$ 39,124
Work in progress	1,153	1,569
Raw materials		1,779
	$ 31,206	$ 42,472

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

	Estimated Useful Life	**June 30, 2012**	**December 31, 2012**
Land		$ 2,016	$ 2,286
Building and improvements	10 40 years	1,020	3,341
Transportation and plant equipment (including capital lease assets)	3 20 years	18,196	22,674
Furniture, fixtures and office equipment	3 10 years	3,589	3,908
		24,821	32,209
Less accumulated depreciation and amortization		(12,089)	(13,774)
		$ 12,732	$ 18,435

Lease Fleet

The Company has a fleet of storage, portable building, office and portable liquid storage tank containers, mobile offices, modular buildings and steps that it primarily leases to customers under operating lease agreements with varying terms. The value of 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, 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. Costs incurred on lease fleet units subsequent to initial acquisition are capitalized when it is probable that future economic benefits in excess of the originally assessed performance will result; otherwise, they are expensed as incurred. At June 30, 2012 and December 31, 2012, the gross cost of the lease fleet was $294,258,000 and $330,249,000, respectively.

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.

GENERAL FINANCE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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, New Zealand and Canadian 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. 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.

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, stock options and convertible preferred stock. 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,	
	2011	2012	2011	2012
Basic	22,013,299	22,026,631	22,013,299	22,025,690
Assumed exercise of warrants		155,718		155,718
Assumed exercise of stock options	241,965	448,845	241,868	448,845
Assumed exercise of convertible preferred stock				
Diluted	22,255,264	22,631,194	22,255,167	22,630,253

Potential common stock equivalents totaling 3,448,488 and 3,448,585 for the quarter ended December 31, 2011 and FY 2012, respectively, and 3,476,058 for both the quarter ended December 31, 2012 and FY 2013 have been excluded from the computation of diluted earnings per share because the effect would be anti-dilutive.

Recently Issued Accounting Pronouncements

In August 2010, the FASB, as result of a joint project with the International Accounting Standards Board (IASB) to simplify lease accounting and improve the quality of and comparability of financial information for users, published a proposed standard that would change the accounting and financial reporting for both lessee and lessor under ASC Topic 840, *Leases*. The proposed standard would effectively eliminate off-balance sheet accounting for most of the operating leases of lessees and would require lessors to apply a receivable and residual accounting approach. Subsequent to June 30, 2011, the FASB and IASB announced their intention to re-expose the common leasing standard exposure draft for revised proposals since August 2010 and, through June 30, 2012, continue to redeliberate issues and concerns raised in response to the proposed standard. 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.

In September 2011, the FASB issued an amendment to the existing guidance on goodwill impairment. The amendment allows entities to first assess qualitative factors to determine whether it is necessary to perform the current two-step quantitative goodwill impairment test under ASC Topic 350, *Intangibles Goodwill*. If an entity elects to use the option, it will no longer be required to calculate the fair value of a reporting unit unless a determination is made based on a qualitative assessment that it is more likely than not (i.e., greater than 50%) that the fair value of the reporting unit is less than its carrying amount. If the entity concludes that fair value is less than the carrying amount, the existing quantitative calculations in steps one and two under ASC Topic 350 continue to apply. However, if the entity concludes that fair value exceeds the carrying amount; neither of the two steps is required. The amendment allows entities to continue applying the existing two-step test and if an entity elects not to use the qualitative assessment in

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GENERAL FINANCE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

one period, it may resume performing the qualitative assessment in any subsequent period. The amendment is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, though early adoption is permitted. The Company has adopted the new qualitative assessment of the amendment as of July 1, 2012.

In December 2011, the FASB and IASB issued joint amendments to enhance disclosures with respect to offsetting and related arrangements for financial and derivative instruments presented in statements of financial position. These amendments to ASC Topic 210, *Balance Sheet*, require entities to provide both net and gross information about both instruments and transactions subject to an agreement similar to a master netting arrangement in order to enhance comparability between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of International Financial Reporting Standards (IFRS). The amendments are effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods. These amendments are required to be applied prospectively and the Company does not expect that the adoption will have a material impact on its consolidated financial position or results of operations.

In July 2012, the FASB issued an amendment to the existing guidance on evaluating Indefinite-Lived Intangible Assets for Impairment. The amendment allows entities to first assess qualitative factors to determine whether it is necessary to perform the current impairment test under ASC Topic 350. If an entity determines based on a qualitative assessment that it is more likely than not (i.e., greater than 50%) that the fair value is not impaired no further testing is necessary. If the entity concludes that fair value is less than the carrying amount, the existing quantitative calculations under ASC Topic 350 continue to apply. The amendment is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after September 15, 2012, though early adoption is permitted. The Company has adopted the new qualitative assessment of the amendment as of July 1, 2012.

Note 3. Equity Transactions

Rights Offering

On June 25, 2010, the Company completed a rights offering. 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. At December 31, 2012, the Company had outstanding a total of 4,187,247 warrants that would enable the holders to acquire an additional 2,093,623 shares of common stock at an exercise price of $4.00 per share.

Cumulative Preferred Stock

The Company conducted 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. Upon issuance of the Cumulative Preferred Stock, the Company recorded the liquidation value as the preferred equity in the consolidated balance sheet, with any issuance or offering costs as a reduction in additional paid-in capital. As of December 31, 2012, the Company had issued 25,900 shares and 100 shares of Series A Preferred Stock and Series B Preferred Stock for total proceeds of $1,295,000 and $100,000, respectively.

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 and on 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.

In connection with an acquisition during the year ended June 30, 2011, the Company issued 110 shares of Series B Preferred Stock with a liquidation value of $110,000 that is redeemable in three annual installments from the dates of issuance. As a result, these issuances, which total $40,000 at December 31, 2012, are classified as a liability in the condensed consolidated balance sheet under the caption Senior and other debt.

GENERAL FINANCE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

As of December 31, 2012, since issuance, dividends paid or payable totaled $624,000 and $46,000 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.

In connection with the Southern Frac acquisition (see Note 4), the Company issued 750 shares of a new Series C Convertible Cumulative Preferred Stock, par value $0.0001 per share and liquidation preference of $1,000 per share (Series C Preferred Stock). Each share of Series C Preferred Stock will accrue no dividends unless declared by the Board of Directors of the Company. The Series C Preferred Stock is automatically convertible into 150,000 shares of GFN common stock at the date that the shares of GFN common stock have a closing price equal to or in excess of $5.00 per share on the NASDAQ Stock Market. If after two years the shares have not converted automatically, the holder can convert at there discretion. In addition the shares are redeemable by the Company for cash at any time for the liquidation value plus accrued but unpaid dividends.

Royal Wolf Dividend

On August 14, 2012, the Board of Directors of Royal Wolf declared a dividend of AUS$0.045 per RWH share payable on October 2, 2012 to shareholders of record on September 20, 2012. The condensed consolidated financial statements reflect the amount of the dividend pertaining to the noncontrolling interest.

Note 4. Acquisitions

The Company can enhance its business and market share by entering into new markets in various ways, including starting up a new location or acquiring a business consisting of container, modular unit or mobile office assets of another entity. An acquisition generally provides the Company with operations that enables it to at least cover existing overhead costs and is preferable to a start-up or greenfield location. The businesses discussed below were acquired primarily to expand the Company s container lease fleet.

On August 1, 2012, the Company, through Royal Wolf, purchased the business of Tassay Pty Ltd., d.b.a. Rockhampton Container Sales, for approximately $656,000 (AUS$624,000), which included a holdback amount of $32,000 (AUS$31,000) . Rockhampton Container Sales leases and sells containers and is based in Rockhampton, Queensland.

On August 17, 2012, the Company, through Pac-Van, purchased the business of Camelback Container Services, LLC (Camelback) for $178,000, which included a holdback amount of $16,000. Camelback performs, among other things, custom modifications of ground level offices and storage containers in Phoenix, Arizona.

On September 17, 2012, the Company, through Pac-Van, purchased the business of Container Connection, LLC (Container Connection) for $1,534,000, which included a holdback amount of $207,000. Container Connection leases and sells containers in Albany, Georgia and Orlando, Florida.

On October 1, 2012, the Company, through GFNMC, acquired 90% of the membership interests of Southern Frac for $6,969,000; which included a noninterest-bearing holdback note of $2,000,000 payable over three years and, therefore, discounted to $1,572,000 at the date of acquisition. Funding for this acquisition included $2,000,000 from borrowings under a new $15,000,000 senior credit facility with Wells Fargo Bank, National Association (Wells Fargo SF Credit Facility see Note 5) and $750,000 from the issuance of 750 shares of Series C Preferred Stock (see Note 3). In conjunction with the acquisition of Southern Frac, GFNMC entered into an agreement with the 10% noncontrolling interest holder for a call option that provides that for the period commencing on April 1, 2013 through October 1, 2017, GFNMC may purchase the noncontrolling interest for an initial price of $1,500,000, with incremental increases of $250,000 for each of the subsequent seven six-month periods. Southern Frac manufactures portable liquid storage containers in Waxahachie, Texas.

On November 5, 2012, the Company, through Royal Wolf, purchased the businesses of Australian Container & Engineering Services Pty Limited, Container Engineering North Queensland Pty Limited and Australian Container Traders Pty Limited, collectively Coral Seas Containers, for approximately $5,618,000 (AUS$5,434,000), which included a holdback amount of $289,000 (AUS$280,000). Coral Seas Containers, among other things, leases and sells containers and is based in Queensland.

On November 22, 2012, the Company, through Royal Wolf, purchased the business of Cairns Containers Pty Limited (Cairns Containers) for approximately $845,000 (AUS$814,000), which included a holdback amount of $44,000 (AUS$43,000). Cairns Container leases and sells containers and is based in Cairns, Queensland.

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The accompanying condensed consolidated financial statements include the operations of the acquired businesses from the dates of acquisition. The allocations for the acquisitions in FY 2013 to tangible and intangible assets acquired and liabilities assumed based on their estimated fair market values were as follows (in thousands):

	Southern Frac October 1, 2012	Coral Seas Containers November 5, 2012	Other Acquisitions	Total
Fair value of the net tangible assets acquired and liabilities assumed:				
Restricted cash	$ 1,000	$	$	$ 1,000
Trade and other receivables	3,203	14	1	3,218
Inventories	2,296	528	28	2,852
Prepaid expenses and other	152		4	156
Property, plant and equipment	2,892	107	224	3,223
Lease fleet		3,649	2,666	6,315
Accounts payables and accrued liabilities	(6,202)	(177)	(99)	(6,478)
Income taxes payable				
Unearned revenue and advance payments		(8)	(15)	(23)
Long-term debt and obligations	(47)			(47)
Noncontrolling interest	(889)			(889)
Total net tangible assets acquired, liabilities assumed and noncontrolling interest	2,405	4,113	2,809	9,327
Fair value of intangible assets acquired:				
Non-compete agreement	71	580	331	982
Customer lists	1,112	295	250	1,657
Trade name	387			387
Other	261			261
Goodwill	2,733	630	38	3,401
Total intangible assets acquired	4,564	1,505	619	6,688
Total purchase allocation	$ 6,969	$ 5,618	$ 3,428	$ 16,015

The estimated fair value of the tangible and intangible assets acquired and liabilities assumed exceeded the purchase prices of Rockhampton Container Sales and Container Connection resulting in estimated bargain purchase gains of $55,000 and $160,000, respectively. These gains have been recorded as non-operating income in the accompanying condensed consolidated statements of operations.

Transaction costs are expensed as incurred and included in selling and general expenses in the accompanying condensed consolidated statements of operations. Transaction costs associated with the Southern Frac acquisition totaled approximately $200,000 and were not material for the other acquisitions in FY 2013.

Note 5. Senior and Other Debt

Royal Wolf Senior Credit Facility

Royal Wolf has an approximately $128,900,000 (AUS$100,000,000 and NZ$29,400,000) senior credit facility with Australia and New Zealand Banking Group Limited (ANZ), which is secured by substantially all of the assets of the Company s Australian and New Zealand subsidiaries. The facility matures on June 30, 2014, except for a $15,561,000 (AUS$15,000,000) revolving sub-facility that matures on November 14, 2014. The ANZ senior credit facility, as amended, is comprised of a working capital sub-facility (primarily for receivable financing) and revolving sub-facilities (primarily for lease fleet purchases and acquisitions) in both Australia and New Zealand. As of December 31, 2012, based upon the exchange rate of one Australian dollar to $1.0374 U.S. dollar and one New Zealand dollar to $0.7909 Australian dollar, total borrowings and availability under the ANZ credit facility totaled $111,012,000 (AUS$107,010,000) and $17,897,000 (AUS$17,252,000), respectively. At December 31, 2012, borrowings under the working capital and revolving sub-facilities totaled $6,482,000 (AUS$6,248,000) and $104,530,000 (AUS$100,762,000), respectively, and bear interest at the bank bill swap interest rate in Australia (BBSY) or New Zealand (BKBM), plus 1.85% 2.05% per annum. At December 31, 2012, the BBSY and BKBM was 3.17% and 2.72%, respectively.

Royal Wolf also has a $3,112,200 (AUS$3,000,000) sub-facility with ANZ to, among other things, facilitate direct and global payments using electronic banking services and a bank guarantee sub-facility of $1,037,400 (AUS$1,000,000).

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The ANZ senior credit facility, as amended, is subject to certain financial and other customary covenants, including, among other things, compliance with specified consolidated interest coverage and total debt ratios based on earnings before interest, income taxes, amortization and depreciation and other non-operating costs (EBITDA) and the payment of dividends are not to exceed 60% of net profits (adding back amortization), plus any dividend surplus from the previous year, as defined.

Pac-Van Senior Credit Facility

Pac-Van had an $85,000,000 senior secured revolving credit facility with a syndicate led by PNC Bank, National Association (PNC) that included Wells Fargo Bank, National Association (Wells Fargo) and Union Bank, N.A. (the PNC Credit Facility). The PNC Credit Facility was scheduled to mature on January 16, 2013, but on September 7, 2012, Pac-Van entered into a new five-year, senior secured revolving credit facility with a syndicate led by Wells Fargo, that also includes HSBC Bank USA, NA, and the Private Bank and Trust Company (the Wells Fargo Credit Facility). Under the Wells Fargo Credit Facility, Pac-Van may borrow up to $110,000,000, subject to the terms of a borrowing base, as defined, and provides for the issuance of irrevocable standby letters of credit in amounts totaling up to $5,000,000. Borrowings will accrue interest, at Pac-Van s option, either at the base rate plus 1.75% to 2.25% or the LIBOR plus 2.75% to 3.25%. The Wells Fargo Credit Facility contains, among other things, certain financial covenants, including fixed charge coverage ratios and utilization ratios, and provides that at any time prior to September 7, 2016, Pac-Van, subject to certain conditions, may increase the amount that may be borrowed under the Credit Facility by $10,000,000 to a maximum of $120,000,000. In connection with the initial funding of the Wells Fargo Credit Facility, all outstanding amounts due under the PNC Credit Facility and the $15,000,000 senior subordinated note with Laminar Direct Capital, L.L.C. (Laminar Note) were fully repaid and, in addition, the limited guaranty by Ronald F. Valenta and Lydia D. Valenta was terminated.

At December 31, 2012, borrowings and availability under the Wells Fargo Credit Facility totaled $92,651,000 and $20,264,000, respectively.

Southern Frac Senior Credit Facility

The Wells Fargo SF Credit Facility provides Southern Frac with (i) a senior secured revolving line of credit under which Southern Frac may borrow, subject to the terms of a borrowing base, as defined, up to $12,000,000 with a three-year maturity; (ii) a $500,000 equipment term loan (the Equipment Term Loan), which fully amortizes over 36 months; (iii) a $1,500,000 term loan (the Term Loan B and, collectively with the Equipment Term Loan, the Term Loans), which fully amortizes over 24 months; and (iv) up to $1,000,000 of capital expenditure loans (the CapEx Loans) which fully amortize over 36 months. The Wells Fargo SF Credit Facility contains, among other things, certain financial covenants, including excess availability and fixed charge coverage ratios, and other covenants, representations, warranties, indemnification provisions, and events of default that are customary for senior secured credit facilities; including events of default relating to a change of control of GFN, GFNMC and Southern Frac. Borrowings under the Wells Fargo SF Credit Facility will accrue interest based on the three-month LIBOR, plus a margin equal to 3.5% for the revolving line of credit, 4.0% for the Equipment Term Loan, 7.0% for the Term Loan B and 4.0% for the CapEx Loans.

At December 31, 2012, borrowings and availability under the Wells Fargo SF Credit Facility totaled $2,484,000 and $1,748,000, respectively.

Other

Other debt, including redeemable preferred stock (see Note 3) and a seller note payable in connection with the Southern Frac acquisition (see Note 4) totaled $4,790,000 at December 31, 2012.

The weighted-average interest rate in the Asia-Pacific area was 8.8% and 6.0% in FY 2012 and FY 2013, respectively; which does not include the effect of translation, interest rate swap contracts and options and the amortization of deferred financing costs. The weighted-average interest rate in the United States was 6.3% and 4.9% in FY 2012 and FY 2013, respectively; which does not include the effect of the amortization of deferred financing costs and accretion of interest.

Loan Covenant Compliance

At December 31, 2012, the Company was in compliance with the financial covenants under its senior credit facilities.

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Note 6. Financial Instruments

Fair Value Measurements

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, 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.

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 assumptions are generally derived from market-observable data. The Company has consistently applied these calculation techniques to all periods presented, which are considered Level 2.

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

		Derivative - Fair Value (Level 2)	
Type of Derivative Contract	**Balance Sheet Classification**	**June 30, 2012**	**December 31, 2012**
Swap Contracts and Options (Caps and Collars)	Trade payables and accrued liabilities	$ (1,539)	$ (1,971)
Forward-Exchange Contracts	Trade payables and accrued liabilities	(102)	(147)

		Quarter Ended December 31,		Six Months Ended December 31,	
Type of Derivative Contract	**Statement of Operations Classification**	**2011**	**2012**	**2011**	**2012**
Swap Contracts and Options (Caps and Collars)	Unrealized loss included in interest expense	$ (68)	$	$ (603)	$ (80)
Forward-Exchange Contracts	Unrealized foreign currency exchange gain (loss) and other	(794)	263	155	(86)

Interest Rate Swap Contracts

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

To manage its exposure to variable interest rates 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 were highly effective; however, prior to August 2012, documentation of such, as required by FASB

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ASC Topic 815*, Derivatives and Hedging,* did not exist. Therefore, all movements in the fair values of these hedges prior to August 2012 were reported in the consolidated statements of operations in the periods in which fair values change. In August 2012, the Company entered into an interest swap contract that met documentation requirements and, as such, it was designated as a cash flow hedge. This cash flow hedge was determined to be fully effective in FY 2013 and, therefore, changes in its fair value were recorded in accumulated other comprehensive income. The Company expects this derivative to remain fully effective during the remaining term of the swap and no amount of ineffectiveness has been recorded in the condensed consolidated statement of operations. However, should any portion of the hedge be considered ineffective, such amounts included in accumulated other comprehensive income would be reclassified to current earnings.

The Company s interest rate swap and option (cap and collar) 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, 2012, there was one open interest rate swap contract and one open interest rate option (collar) contract; and, as of December 31, 2012, there was one open interest rate swap contract that was designated as a cash flow hedge and matures in June 2017, as follows (dollars in thousands):

	June 30, 2012		December 31, 2012	
	Swap	**Option (Collar)**	**Swap**	**Option (Collar)**
Notional amounts	$ 15,242	$ 25,403	$ 51,870	$
Fixed/Strike Rates	6.25%	6.25%	3.98%	%
Floating Rates	5.47%	5.47%	3.17%	%
Fair Value of Combined Contracts	$ (587)	$ (952)	$ (1,971)	$

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, 2012, there were 12 open forward exchange contracts; and, as of December 31, 2012, there were 35 open forward exchange contracts that mature between January 2013 and August 2013, as follows (dollars in thousands):

	June 30, 2012		December 31, 2012	
	Forward Exchange	**Currency Option**	**Forward Exchange**	**Currency Option**
Notional amounts	$ 7,096	$	$ 9,541	$
Exchange/Strike Rates (AUD to USD)	0.9702 1.0201		0.9656 1.0346	
Fair Value of Combined Contracts	$ (102)	$	$ (147)	$

In FY 2012 and FY 2013, net unrealized and realized foreign exchange gains (losses) totaled $(710,000) and $757,000, and $105,000 and $162,000, respectively. For the quarter ended December 31, 2011 and 2012, net unrealized and realized foreign exchange gains (losses) totaled $(756,000) and $759,000, and $(255,000) and $25,000, respectively.

Fair Value of Other Financial Instruments

The fair value of the Company s borrowings under its senior credit facilities and Laminar Note was determined based on level 3 inputs including a search for debt issuances with maturities comparable to the Company s debt (Debt Issuances with Upcoming Call Dates), a comparison to a group of comparable industry debt issuances (Industry Comparable Debt Issuances) and a study of credit (Credit Spread Analysis) as of June 30, 2012. Under the Debt Issuances with Upcoming Call Dates, the Company performed a Yield-to-Worse analysis on debt issuances with call dates that were comparable to the maturity dates of the Company s borrowings. Under the Industry Comparable Debt Issuance method, the Company compared the debt facilities to several industry comparable debt issuances. This method consisted of an analysis of the offering yields compared to the current yields on publicly traded debt

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securities. Under the Credit Spread Analysis, the Company first examined the implied credit spreads of the United States Federal Reserve. Based on this analysis the Company was able to assess the credit market. The fair value of the Company s senior credit facilities and Laminar Note as of June 30, 2012 was determined to be approximately $174,200,000. The Company also determined that the fair value of its other debt of $1,132,000 at June 30, 2012 approximated or would not vary significantly from their carrying values. Based on the refinancing at Pac-Van (see Note 5) and acquisition of Southern Frac (see Note 4), current market conditions and other factors, the Company has determined that the fair value of the Wells Fargo Credit Facility, Wells Fargo SF Credit Facility, ANZ senior credit facility and other debt at December 31, 2012 approximates or would not vary significantly from their carrying values.

Under the provisions of FASB ASC Topic 825, *Financial Instruments,* the carrying value of the Company s other financial instruments (consisting primarily of cash and cash equivalents, net receivables, trade payables and accrued liabilities) approximate fair value.

Note 7. 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 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. On October 11, 2012, the Company exercised its option to renew the lease for an additional five-year term commencing February 1, 2013. Rental payments were $55,000 in both FY 2012 and FY 2013.

Effective October 1, 2008, the Company entered into a services agreement 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 fiscal year end. Total charges to the Company for services rendered under this agreement totaled $94,000 ($42,000 at the corporate office and $52,000 at the operating subsidiaries) in FY 2012 and $42,000 at the corporate office in FY 2013.

Revenues at Pac-Van from affiliates of Mr. Valenta totaled $21,000 and $31,000 in FY 2012 and FY 2013, respectively, and equipment and other services purchased by Pac-Van from these affiliated entities totaled $26,000 and $3,000 in FY 2012 and FY 2013, respectively.

Note 8. 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 (2009 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 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.

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

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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 (performance-based options).

Since inception, 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	1.19% - 4.8%
Expected life (in years)	7.5
Expected volatility	26.5% - 84.6%
Expected dividends	

At December 31, 2012, the weighted-average fair value of the stock options granted to non-employee consultants was $3.21, determined using the Black-Scholes option-pricing model using the following assumptions: a risk-free interest rate of 1.23% 1.62%, an expected life of 7.5 9.4 years an expected volatility of 77.5%, and no expected dividend.

A summary of the Company s stock option activity and related information for FY 2013 follows:

	Number of Options (Shares)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)
Outstanding at June 30, 2012	1,843,664	$ 4.96	
Granted			
Exercised	(6,666)	1.22	
Forfeited or expired			
Outstanding at December 31, 2012	1,836,998	$ 4.97	6.7
Vested and expected to vest at December 31, 2012	1,836,998	$ 4.97	6.7
Exercisable at December 31, 2012	883,408	$ 7.18	5.1

At December 31, 2012, outstanding time-based options and performance-based options totaled 885,718 and 951,280, respectively. Also at that date, the Company s market price for its common stock was $4.30 per share, which was at or below the exercise prices of almost half of the outstanding stock options. As a result, the intrinsic value of the outstanding stock options at that date was $1,930,000.

Share-based compensation of $4,052,000 related to stock options has been recognized in the condensed consolidated statements of operations, with a corresponding benefit to equity, from inception through December 31, 2012. At that date, there remains $1,096,000 of unrecognized compensation expense to be recorded on a straight-line basis over the remaining weighted-average vesting period of 1.7 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.

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Royal Wolf Long Term Incentive Plan

In conjunction with the RWH IPO (see Note 1), Royal Wolf established the Royal Wolf Long Term Incentive Plan (the LTI Plan). Under the LTI Plan, the RWH Board of Directors may grant, at its discretion, options, performance rights and/or restricted shares of RWH capital stock to Royal Wolf employees and executive directors. Vesting terms and conditions may be up to four years and, generally, will be subject to performance criteria based primarily on enhancing shareholder returns using a number of key financial benchmarks, including EBITDA. In addition, unless the RWH Board determines otherwise, if an option, performance right or restricted share has not lapsed or been forfeited earlier, it will terminate at the seventh anniversary from the date of grant.

It is intended that up to one percent of RWH s outstanding capital stock will be reserved for grant under the LTI Plan and a trust will be established to hold RWH shares for this purpose. However, so long as the Company holds more than 50% of the outstanding shares of RWH capital stock, RWH shares reserved for grant under the LTI Plan are required to be purchased in the open market unless the Company agrees otherwise.

The LTI Plan, among other provisions, does not permit the transfer, sale, mortgage or encumbering of options, performance rights and restricted shares without the prior approval of the RWH Board. In the event of a change of control, the RWH Board, at its discretion, will determine whether, and how many, unvested options, performance rights and restricted shares will vest. In addition, if, in the RWH Board s opinion, a participant acts fraudulently or dishonestly or is in breach of his obligations to Royal Wolf, the RWH Board may deem any options, performance rights and restricted shares held by or reserved for the participant to have lapsed or been forfeited.

As of December 31, 2012, the Royal Wolf Board of Directors has granted 865,000 performance rights to key management personnel under the LTI Plan. In FY 2013, share-based compensation of $193,000 related to the LTI Plan has been recognized in the statements of operations, with a corresponding benefit to equity.

Note 9. Commitments and Contingencies

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.

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Note 10. 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, 2011	2012
Cash flows from operating activities		
Net income	$ 3,869	$ 6,323
Adjustments to reconcile net income to cash flows from operating activities:		
Gain on sales and disposals of property, plant and equipment	(126)	(96)
Gain on sales of lease fleet	(3,111)	(3,270)
Gain on bargain purchase of businesses		(215)
Unrealized foreign exchange loss (gain)	710	(105)
Unrealized loss (gain) on forward exchange contracts	(155)	86
Unrealized loss on interest rate swaps and options	603	80
Depreciation and amortization	9,240	10,696
Amortization of deferred financing costs	346	485
Accretion of interest		50
Share-based compensation expense	420	646
Deferred income taxes	1,975	3,292
Changes in operating assets and liabilities:		
Trade and other receivables, net	(392)	6,022
Inventories	(15,176)	(7,655)
Prepaid expenses and other	79	(1,002)
Trade payables, accrued liabilities and unearned revenues	1,150	(4,618)
Income taxes	(195)	(105)
Net cash provided by (used in) operating activities	$ (763)	$ 10,614

Note 11. 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), long-lived assets and goodwill; as attributed to its two geographic segments (in thousands):

	Quarter Ended December 31, 2011	2012	Six Months Ended December 31, 2011	2012
Revenues from external customers				
North America:				
Sales	$ 4,549	$ 13,825	$ 11,068	$ 18,279
Leasing	9,989	12,016	20,371	23,631

	14,538	25,841	31,439	41,910
Asia-Pacific:				
Sales	18,386	18,182	40,076	37,450
Leasing	15,183	19,329	29,385	37,381
	33,569	37,511	69,461	74,831
Total	$ 48,107	$ 63,352	$ 100,900	$ 116,741
Operating income				
North America	$ 394	$ 1,659	$ 1,431	$ 2,476
Asia-Pacific	5,029	7,027	10,649	13,070
Total	$ 5,423	$ 8,686	$ 12,080	$ 15,546

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(Unaudited)

Interest income				
North America	$ 2	$	$ 4	$ 2
Asia-Pacific	31	17	124	38
Total	$ 33	$ 17	$ 128	$ 40
Interest expense				
North America	$ 1,324	$ 1,096	$ 2,613	$ 2,619
Asia-Pacific	1,564	1,534	3,677	3,236
Total	$ 2,888	$ 2,630	$ 6,290	$ 5,855
Share-based compensation				
North America	$ 135	$ 184	$ 306	$ 381
Asia-Pacific	78	164	114	265
Total	$ 213	$ 348	$ 420	$ 646
Depreciation and amortization				
North America	$ 1,440	$ 1,686	$ 2,873	$ 3,093
Asia-Pacific	3,242	3,710	6,367	7,603
Total	$ 4,682	$ 5,396	$ 9,240	$ 10,696
Additions to long-lived assets				
North America			$ 4,994	$ 16,118
Asia-Pacific			24,904	26,069
Total			$ 29,898	$ 42,187

	At	
	June 30, 2012	**December 31, 2012**
Long-lived assets		
North America	$ 112,867	$ 128,793
Asia-Pacific	159,323	179,625
Total	$ 272,190	$ 308,418
Goodwill		
North America	$ 33,859	$ 36,608
Asia-Pacific	34,590	36,056
Total	$ 68,449	$ 72,664

Intersegment net revenues totaled $33,000 during the quarter ended December 31, 2011 and $71,000 during FY 2012. There were no intersegment net revenues in FY 2013. However, intrasegment net revenues of portable liquid storage containers from Southern Frac to Pac-Van in North America totaled $3,587,000 during both the quarter ended December 31, 2012 and FY 2013.

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, 2012 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, anticipate, estimate, continue or the negative of such terms or other similar expressions. Risk factors that might cause or contribute to such discrepancies include, but are not limited to, those described in our Annual Report on Form 10-K for the year ended June 30, 2012 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 SEC filings.

References to we, us, our or the Company refer to General Finance Corporation, a Delaware corporation (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 Manufacturing Corporation, a Delaware corporation (GFNMC) and its subsidiary, Southern Frac, LLC, a Texas limited liability company (Southern Frac); Royal Wolf Holdings Limited (formerly GFN Australasia Holdings Pty Ltd)., an Australian corporation publicly traded on the Australian Securities Exchange (RWH); and its Australian and New Zealand subsidiaries (collectively, Royal Wolf); Pac-Van, Inc., an Indiana corporation , and its Canadian subsidiary, PV Acquisition Corp., an Alberta corporation, doing business as Container King (collectively Pac-Van).

Background and Overview

We incorporated in Delaware on October 14, 2005 and completed our initial public offering (IPO) in April 2006. Our primary long-term strategy and business plan are to acquire and operate rental services and specialty finance businesses in North and South America, Europe and the Asia-Pacific (or Pan-Pacific) area.

At December 31, 2012, we have two geographic and three operating units. Royal Wolf, which leases and sells storage containers, portable container buildings and freight containers in Australia and New Zealand, which is referred geographically by us to be the Asia-Pacific (or Pan-Pacific) area; Pac-Van, which leases and sells storage, office and portable liquid storage tank containers, modular buildings and mobile offices in North America; and Southern Frac, which manufactures portable liquid storage tank containers for sale in North America.

We do business in three distinct, but related industries, mobile storage, modular space and liquid containment; which we collectively refer to as the portable services industry. Our two leasing subsidiaries, Royal Wolf and Pac-Van, lease and sell their products through nineteen customer service centers (CSCs) in Australia, seven CSCs in New Zealand and twenty-eight branch locations across eighteen states in the United States and in Alberta, Canada. As of December 31, 2012, we had 254 and 454 employees and 39,226 and 14,038 lease fleet units in the Asia-Pacific area and North America, respectively.

Our products primarily consist of the following:

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. We also offer storage vans, also known as storage trailers or dock-height trailers.

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.

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.

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Mobile Offices. 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.

Portable Container Buildings and Office Containers. Portable container buildings and office containers are either modified or specifically-manufactured containers that provide self-contained office space with maximum design flexibility. Office containers in the U.S. are oftentimes referred to as ground level offices (GLOs).

Liquid Containment

Portable Liquid Storage Tank Containers. Portable liquid storage tank containers are often referred to as frac tanks or frac tank containers and are manufactured steel containers with fixed steel axles for transport and use in a variety of industries; including oil and gas exploration and field services, refinery, chemical and industrial plant maintenance, environmental remediation and field services, infrastructure building construction, marine services, pipeline construction and maintenance, tank terminals services, wastewater treatment and waste management and landfill services. While there are a number of different sizes of tanks currently used in the market place, we are currently focusing on the more common 500-barrel capacity containers. Our products typically include features such as guardrails, safety stairways, multiple entry ways and a sloped bottom for easy cleaning, an epoxy lining, and various feed and drain lines.

Results of Operations

Quarter Ended December 31, 2012 (QE FY 2013) Compared to Quarter Ended December 31, 2011 (QE FY 2012)

The following compares our QE FY 2013 results of operations with our QE FY 2012 results of operations.

Revenues. Revenues increased by $15.2 million, or 32%, to $63.3 million in QE FY 2013 from $48.1 million in QE FY 2012. This consisted of an increase of $3.9 million, or 12%, in revenues at Royal Wolf, a $3.6 million increase, or 25%, in revenues at Pac-Van, and $7.7 million from Southern Frac, which we acquired on October 1, 2012. The translation effect of the average currency exchange rate, driven by the strengthening in the Australian dollar relative to the U.S. dollar in QE FY 2013 versus QE FY 2012, caused a translation increase in QE FY 2013 to the total revenues at Royal Wolf when compared to QE FY 2012. In Australian dollars, total revenues at Royal Wolf increased by 9% in QE FY 2013 from QE FY 2012. The average currency exchange rate of one Australian dollar during QE FY 2013 was $1.03836 U.S. dollar compared to $1.01236 U.S. dollar during QE FY 2012.

The revenue increase at Royal Wolf was primarily in the mining and consumer sectors where revenues increased by approximately $2.7 million, or 19%, in QE FY 2013 from QE FY 2012. At Pac-Van, the revenue increase in QE FY 2013 from QE FY 2012 was across-the-board in most sectors, particularly in commercial, construction, services and mining and energy.

Sales and leasing revenues of our leasing operations represented 44% and 56% of total revenues (not including Southern Frac) in QE FY 2013 and 48% and 52% of total revenues in QE FY 2012, respectively.

Sales during QE FY 2013 amounted to $32.0 million, compared to $22.9 million during QE FY 2012; representing an increase of $9.1 million, or 40%. This included a decrease of $0.2 million, or 1%, in sales at Royal Wolf, a $1.6 million increase, or 36%, in sales at Pac-Van and $7.7 million of sales from Southern Frac. The translation effect of the average currency exchange rate, driven by the strengthening in the Australian dollar relative to the U.S. dollar in QE FY 2013 versus QE FY 2012, caused a translation increase in QE FY 2013 to the sales revenues at Royal Wolf when compared to QE FY 2012. In Australian dollars, sales at Royal Wolf decreased by 4% in QE FY 2013 from QE FY 2012. The sales decrease in QE FY 2013 from QE FY 2012 at Royal Wolf consisted of a $1.2 million decrease in our CSC retail operations (primarily from lower unit sales of $0.8 million and decreases in average prices of $0.8 million, offset somewhat by a favorable foreign exchange translation effect of $0.4 million), substantially offset by an increase in our national accounts group of $1.0 million (primarily from increases in average unit prices of $1.0 million and a favorable foreign exchange translation effect of $0.1 million, offset slightly by lower unit sales of $0.1 million). At Pac-Van, the higher sales in QE FY 2013 versus QE FY 2012 were across-the-board in most sectors, particularly in commercial, construction, services and mining and energy. At Southern Frac, portable liquid storage tank container sales in QE FY 2013 consisted of 232 units at an average sales price of approximately $33,300 per unit.

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Leasing revenues during QE FY 2013 totaled $31.3 million, as compared to $25.2 million during QE FY 2012, representing an increase of $6.1 million, or 24%. Leasing revenues increased at Royal Wolf by $4.1 million, or 27%, and by $2.0 million, or 20%, at Pac-Van. The translation effect of the average currency exchange rate, driven by the strengthening in the Australian dollar relative to the U.S. dollar in QE FY 2013 versus QE FY 2012, caused a translation increase in QE FY 2013 to the leasing revenues at Royal Wolf when compared to QE FY 2012. In Australian dollars, leasing revenues at Royal Wolf increased by 24% in QE FY 2013 from QE FY 2012.

At Royal Wolf, average utilization in the retail operations was 85% during QE FY 2013 and 89% during QE FY 2012; and average utilization in the national accounts group operations was 81% during QE FY 2013 and 85% during QE FY 2012. In QE FY 2013 and QE FY 2012, the overall average utilization was 84% and 87%, respectively; and the average monthly lease rate of containers was AUS$167 in QE FY 2013 and AUS$153 in QE FY 2012. Leasing revenues in QE FY 2013 increased over QE FY 2012 due primarily to the combination of the higher average monthly lease rate and the average monthly number of units on lease being almost 3,900 higher in QE FY 2013 as compared to QE FY 2012. These factors more than offset the reduction in the average utilization rates between periods, though the utilization rates remain strong in QE FY 2013. We believe the primary reasons we are generally able to maintain high average utilization rates and increase our average units on lease between periods at Royal Wolf are the stronger economy in the Asia-Pacific area and our position as the only company with a national footprint in the mobile storage industry in Australia and New Zealand. 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%, 84%, 86%, 66% and 76% and average monthly lease rates were $106, $263, $1,170, $237 and $851 for storage containers, office containers, frac tank containers, mobile offices and modular units, respectively, during QE FY 2013; as compared to 89%, 86%, 0%, 66% and 76% and $105, $257, $0, $221 and $755 for storage containers, office containers, frac tank containers, mobile offices and modular units in QE FY 2012, respectively. The average composite utilization rate in QE FY 2013 and QE FY 2012 was 79% and 78%, respectively, and the composite average monthly number of units on lease was over 1,800 higher in QE FY 2013 as compared to QE FY 2012. The strong utilization and generally higher monthly lease rates resulted primarily from improved demand across most sectors, particularly in commercial, construction and mining and energy.

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 $1.3 million, from $16.8 million during QE FY 2012 to $18.1 million during QE FY 2013, as a result of the higher sales from our lease inventories and fleet discussed above. However, our gross profit percentage from these sales revenues decreased slightly to 26% in QE FY 2013 from 27% in QE FY 2012. Cost of sales from our manufactured portable liquid storage tank containers totaled $6.5 million, or approximately $28,200 per unit, which included additional costs of $145,000 due to the purchase price allocation effect of carrying the opening inventory on October 1, 2012 at fair value. Our gross profit percentage from sales of manufactured units was approximately 15% during QE FY 2013.

Direct Costs of Leasing Operations and Selling and General Expenses. Direct costs of leasing operations and selling and general expenses increased in absolute dollars (by $3.5 million, from $21.2 million during QE FY 2012 to $24.7 million during QE FY 2013), but decreased as a percentage of revenues (to 39% in QE FY 2013 from 44% in QE FY 2012). This absolute dollar increase was not only the result of our increased leasing operations, but also to the additional selling and administrative expenses of $0.9 million incurred at Southern Frac in QE FY 2013, which included $135,000 of one-time, transaction-related costs since the date of acquisition.

Depreciation and Amortization. Depreciation and amortization increased by $0.6 million to $5.3 million in QE FY 2013 from $4.7 million in QE FY 2012 primarily as a result of our increasing investment in the lease fleet and business acquisitions.

Interest Expense. Interest expense of $2.6 million in QE FY 2013 was $0.3 million lower than the $2.9 million in QE FY 2012. This was comprised of a decrease in interest expense of $0.1 million at Royal Wolf and a decrease in interest expense of $0.2 million in North America. The weighted-average interest rate (which does not include the effect of translation, interest rate swap contracts and options and the amortization of deferred financing costs) at Royal Wolf of 5.7% in QE FY 2013 was substantially lower than the 8.4% in QE FY 2012 and more than offset the comparative higher average borrowings. Similarly, in North America, the decrease in the weighted-average interest rate (which does not include the effect of the amortization of deferred financing costs) of 4.1% in QE FY 2013 from 6.3% in QE FY 2012 more than offset the higher average borrowings in QE FY 2013, as compared to QE FY 2012.

Foreign Currency Exchange and Other. The currency exchange rate of one Australian dollar to one U.S. dollar was $0.9793 at September 30, 2011, $1.0176 at December 31, 2011, $1.0381 at September 30, 2012 and $1.0374 at December 31, 2012. In QE FY 2013 and QE FY 2012, net unrealized and realized gains (losses) on foreign exchange totaled $(0.8) million and $0.8 million and $(0.3) million and $25,000, respectively; and net unrealized gains (losses) on forward currency exchange contracts totaled $(0.8) million and $0.3 million, respectively.

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Income Taxes. Our effective income tax rate was 38.0% in both QE FY 2013 and QE FY 2012. The effective rate is greater than the U.S. federal rate of 34% (the Australian statutory tax rate is 30%) 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.

Noncontrolling Interest. Noncontrolling interest in the Royal Wolf and Southern Frac results of operations was $2.1 million QE FY 2013, as compared to $1.0 million in QE FY 2012, reflecting the higher profitability of Royal Wolf between periods and the addition of Southern Frac in QE FY 2013.

Net Income Attributable to Common Stockholders. We had net income attributable to common stockholders of $1.7 million in QE FY 2013, which was $1.6 million greater than the $0.1 million in QE FY 2012; primarily as a result of the greater operating profit in both the Pan-Pacific area and North America, lower interest expense and greater benefit from foreign exchange and derivative instrument transactions in QE FY 2013 when compared to QE FY 2012.

Six Months Ended December 31, 2012 (FY 2013) Compared to Six Months Ended December 31, 2011 (FY 2012)

The following compares our FY 2013 results of operations with our FY 2012 results of operations.

Revenues. Revenues increased by $15.8 million, or 16%, to $116.7 million in FY 2013 from $100.9 million in FY 2012. This consisted of an increase of $5.3 million, or 8%, in revenues at Royal Wolf, a $2.8 million decrease, or 9%, in revenues at Pac-Van and $7.7 million from Southern Frac, which we acquired on October 1, 2012. The translation effect of the average currency exchange rate, driven by the slight strengthening in the Australian dollar relative to the U.S. dollar in FY 2013 versus FY 2012, caused a slight translation increase in FY 2013 to the total revenues at Royal Wolf when compared to FY 2012. In Australian dollars, total revenues at Royal Wolf increased by 7% in FY 2013 from FY 2012. The average currency exchange rate of one Australian dollar during FY 2013 was $1.03884 U.S. dollar compared to $1.03251 U.S. dollar during FY 2012.

The revenue increase at Royal Wolf was primarily in the mining and consumer sectors where revenues increased by approximately $4.5 million, or 24%, in FY 2013 from FY 2012. At Pac-Van, increases across-the-board in most sectors, particularly in commercial, construction and mining and energy, which totaled over $3.7 million, were offset somewhat by decreases totaling $1.8 million in the services, government and education sectors.

Sales and leasing revenues of our leasing operations represented 44% and 56% of total revenues (not including Southern Frac) in FY 2013 and 51% and 49% of total revenues in FY 2012, respectively.

Sales during FY 2013 amounted to $55.7 million, compared to $51.1 million during FY 2012; representing an increase of $4.6 million, or 9%. This included a decrease of $2.7 million, or 7%, in sales at Royal Wolf, a $0.4 million decrease, or 4%, in sales at Pac-Van and $7.7 million of sales from Southern Frac. The sales decrease in FY 2013 from FY 2012 at Royal Wolf consisted of a $2.1 million decrease in our national accounts group (primarily from a decrease in unit sales of $1.9 million, lower average prices of $0.4 million, offset somewhat by favorable foreign exchange translation effect of $0.2 million) and a $0.6 million decrease in our CSC retail operations (primarily from lower unit sales of $1.3 million, offset somewhat by increases in average prices of $0.7 million). At Pac-Van, the lower sales in FY 2013 versus FY 2012 were primarily due to an over $2.0 million decrease in the services, retail and government sectors, offset somewhat by increases of $1.6 million in the other sectors, particularly the commercial, construction and mining and energy sectors. At Southern Frac, portable liquid storage tank container sales in FY 2013 consisted of 232 units at an average sales price of approximately $33,300 per unit.

Leasing revenues during FY 2013 totaled $61.0 million, as compared to $49.8 million during FY 2012, representing an increase of $11.2 million, or 22%. Leasing revenues increased at Royal Wolf by $8.0 million, or 27%, and by $3.2 million, or 16%, at Pac-Van. The translation effect of the average currency exchange rate, driven by the slight strengthening in the Australian dollar relative to the U.S. dollar in FY 2013 versus FY 2012, caused a slight translation increase in FY 2013 to the leasing revenues at Royal Wolf when compared to FY 2012. In Australian dollars, leasing revenues at Royal Wolf increased by 26% in FY 2013 from FY 2012.

At Royal Wolf, average utilization in the retail operations was 86% during FY 2013 and 89% during FY 2012; and average utilization in the national accounts group operations was 76% during FY 2013 and 80% during FY 2012. In FY 2013 and FY 2012, the overall average utilization was 83% and 86%, respectively; and the average monthly lease rate of containers was AUS$165 in FY 2013 and AUS$150 in FY 2012. Leasing revenues in FY 2013 increased over FY 2012 due primarily to the combination of the higher average monthly lease rate and the average monthly number of units on lease being almost 4,000 higher in FY 2013 as compared to FY 2012. These factors more than offset the reduction in the average utilization rates between periods, though the utilization rates remain strong in FY 2013. We believe the primary reasons we are generally able to maintain high average utilization rates and increase our average units on lease between periods at Royal Wolf are the stronger economy in the Asia-Pacific area and our position as the only company with a national footprint in the mobile storage industry in Australia and New Zealand. 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 87%, 83%, 83%, 66% and 76% and average monthly lease rates were $105, $259, $1,111, $236 and $844 for storage containers, office containers, frac tank containers, mobile offices and modular units, respectively, during FY 2013; as compared to 89%, 84%, 0%, 66% and 77% and $103, $255, $0, $223 and $756 for storage containers, office containers, frac tank containers, mobile offices and modular units in FY 2012, respectively. The average composite utilization rate in FY 2013 and FY 2012 was 78% and 77%, respectively, and the composite average monthly number of units on lease was over 1,400 higher in FY 2013 as compared to FY 2012. The strong utilization and generally higher monthly lease rates resulted primarily from improved demand across most sectors, with a modest reduction in leasing revenues in the government and education sectors.

Cost of Sales. Cost of sales (which is the cost related to our sales revenues only and exclusive of the line items discussed below) decreased by $1.8 million, from $37.2 million during FY 2012 to $35.4 million during FY 2013, as a result of the lower sales from our lease inventories and fleet discussed above. However, our gross profit percentage from these sales revenues decreased slightly to 26% FY 2013 from 27% in FY 2012. Cost of sales from our manufactured portable liquid storage tank containers totaled $6.5 million, or approximately $28,200 per unit, which included additional costs of $145,000 due to the purchase price allocation effect of carrying the opening inventory on October 1, 2012 at fair value. Our gross profit percentage from sales of manufactured units was approximately 15% during FY 2013.

Direct Costs of Leasing Operations and Selling and General Expenses. . Direct costs of leasing operations and selling and general expenses increased in absolute dollars (by $6.3 million, from $42.4 million during FY 2012 to $48.7 million during FY 2013), but remained steady as a percentage of revenues at 42%. This absolute dollar increase was not only the result of our increased leasing operations, but also to the additional selling and administrative expenses of $0.9 million incurred at Southern Frac in FY 2013, which included $135,000 of one-time, transaction-related costs since the date of acquisition.

Depreciation and Amortization. Depreciation and amortization increased by $1.4 million to $10.6 million in FY 2013 from $9.2 million in FY 2012 primarily as a result of our increasing investment in the lease fleet and business acquisitions.

Interest Expense. Interest expense of $5.9 million in FY 2013 was $0.4 million lower than the $6.3 million in FY 2012. This was comprised of a decrease in interest expense at Royal Wolf of $0.4 million. The weighted-average interest rate (which does not include the effect of translation, interest rate swap contracts and options and the amortization of deferred financing costs) at Royal Wolf of 6.0% in FY 2013 was substantially lower than the 8.8% in FY 2012 and more than offset the comparative higher average borrowings. However, in North America, the decrease in the weighted-average interest rate (which does not include the effect of the amortization of deferred financing costs) of 4.9% in FY 2013 from 6.3% in FY 2012 was effectively offset by the higher average borrowings in FY 2013, as compared to FY 2012.

Foreign Currency Exchange and Other. The currency exchange rate of one Australian dollar to one U.S. dollar was $1.0597 at June 30, 2011, $1.0176 at December 31, 2011, $1.0161 at June 30, 2012 and 1.0374 at December 31, 2012. In FY 2013 and FY 2012, net unrealized and realized gains (losses) on foreign exchange totaled $(0.7) million and $0.8 million and $105,000 and $162,000, respectively; and net unrealized gains (losses) on forward currency exchange contracts totaled $(0.3 million) and $0.9 million, respectively. In FY 2013, the estimated fair value of the tangible and intangible assets acquired and liabilities assumed exceeded the purchase prices of two of our acquisitions resulting in bargain purchase gains of $0.2 million (see Note 4 of Notes to Condensed Consolidated Financial Statements).

Income Taxes. Our effective income tax rate was 38.0% in both FY 2013 and FY 2012. The effective rate is greater than the U.S. federal rate of 34% (the Australian statutory tax rate is 30%) 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.

Noncontrolling Interest. Noncontrolling interest in the Royal Wolf and Southern Frac results of operations was $3.6 million FY 2013, as compared to $2.7 million in FY 2012, reflecting the higher profitability of Royal Wolf between periods and the addition of Southern Frac in FY 2013.

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Net Income Attributable to Common Stockholders. We had net income attributable to common stockholders of $2.7 million in FY 2013, which was $1.6 million greater than the $1.1 million in FY 2012; primarily as a result of the greater operating profit in both the Pan-Pacific area and North America, lower interest expense, greater benefit from foreign exchange and derivative instrument transactions and bargain purchase gains in FY 2013 when compared to FY 2012.

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 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,	
	2011	**2012**	**2011**	**2012**
Net income (loss)	$ 1,118	$ 3,831	$ 3,869	$ 6,323
Add (deduct)				
Provision for income taxes	686	2,349	2,372	3,876
Foreign currency exchange (gain) loss and other	764	(107)	(323)	(468)
Interest expense	2,888	2,630	6,290	5,855
Interest income	(33)	(17)	(128)	(40)
Depreciation and amortization	4,682	5,396	9,240	10,696
Share-based compensation expense	213	348	420	646
Adjusted EBITDA	$ 10,318	$ 14,430	$ 21,740	$ 26,888

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 produce large increases in profitability and adjusted EBITDA margins. 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.

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Liquidity and Financial Condition

Each of our operating units substantially funds its operations 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.

Royal Wolf has an approximately $128,900,000 (AUS$100,000,000 and NZ$29,400,000) secured senior credit facility with Australia and New Zealand Banking Group Limited (ANZ and the ANZ Credit Facility) that matures on June 30, 2014, except for a $15,561,000 (AUS$15,000,000) revolving sub-facility that matures on November 14, 2014. The ANZ Credit facility, as amended, is comprised of a working capital sub-facility (primarily for receivable financing) and revolving sub-facilities (primarily for lease fleet purchases and acquisitions) in both Australia and New Zealand.

Pac-Van had an $85,000,000 senior secured revolving credit facility with a syndicate led by PNC Bank, National Association (PNC) that included Wells Fargo Bank, National Association (Wells Fargo) and Union Bank, N.A. (the PNC Credit Facility). The PNC Credit Facility was scheduled to mature on January 16, 2013, but on September 7, 2012, Pac-Van entered into a new five-year, senior secured revolving credit facility with a syndicate led by Wells Fargo, that also includes HSBC Bank USA, NA, and the Private Bank and Trust Company (the Wells Fargo Credit Facility). Under the Wells Fargo Credit Facility, Pac-Van may borrow up to $110,000,000, subject to the terms of a borrowing base, as defined, and provides for the issuance of irrevocable standby letters of credit in amounts totaling up to $5,000,000. In connection with the Wells Fargo Credit Facility, all outstanding amounts due under the PNC Credit Facility and the $15,000,000 senior subordinated note with Laminar Direct Capital, L.L.C. (Laminar Note) were fully repaid.

Southern Frac has a $15,000,000 senior secured facility with Wells Fargo (the Wells Fargo SF Credit Facility) that consists of (i) a three-year $12,000,000 revolving line of credit; (ii) a $500,000 equipment term loan, which fully amortizes over 36 months; (iii) a $1,500,000 term loan, which fully amortizes over 24 months; and (iv) up to $1,000,000 of capital expenditure loans, which fully amortize over 36 months.

Reference is made to Note 5 of Notes to Condensed Consolidated Financial Statements for further discussion of our senior and other debt.

As of December 31, 2012, our required principal and other obligations payments for the twelve months ending December 31, 2013 and the subsequent three fiscal years are as follows (in thousands):

	Twelve Months Ending December 31,			
	2013	**2014**	**2015**	**2016**
ANZ Credit Facility (a)	$ 4,924	$ 104,463	$ 681	$ 544
Wells Fargo Credit Facility (b)				
Wells Fargo SF Credit Facility	1,006	1,172	306	
Other	1,290	1,645	915	120
	$ 7,220	$ 107,280	$ 1,902	$ 664

(a) Reflects primarily the working capital sub-facilities 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 June 2014.

(b) The Wells Fargo Credit Facility matures in September 2017.

We intend to continue utilizing our operating cash flow and borrowing capacity primarily to expanding our container sale inventory and lease fleet through both capital expenditures and accretive acquisitions.

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 FY 2013 Compared to FY 2012

Our business is capital intensive, and we acquire leasing assets before they generate revenues, cash flow and earnings. These leasing assets have 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 branch and CSC 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 facilities at our operating units. We also finance a smaller portion of capital requirements through finance leases and lease-purchase contracts. Supplemental information pertaining to our consolidated sources and uses of cash is presented in the table below (in thousands):

	Six Months Ended December 31,	
	2011	**2012**
Net cash provided by (used in) operating activities	$ (763)	$ 10,614
Net cash used in investing activities	$ (15,870)	$ (41,513)
Net cash provided by financing activities	$ 17,211	$ 29,303

Operating activities. Our operations provided net cash flow of $10.6 million during FY 2013, an increase of $11.4 million from the $0.8 million of operating cash flow used during FY 2012. Net income of $6.3 million in FY 2013 was higher by $2.4 million from net income of $3.9 million in FY 2012 and our operating cash flows increased by $7.1 million in FY 2013 from the management of operating assets and liabilities when compared to FY 2012. In FY 2013 and FY 2012, operating cash flows were reduced by $7.4 million and $14.5 million, respectively, from the management of operating assets and liabilities. In addition, our operating cash flows in FY 2013 increased by $1.5 million over FY 2012 as a result of larger non-cash adjustments of depreciation and amortization on fixed and intangible assets. Depreciation and amortization totaled 10.7 million in FY 2013 versus $9.2 million in FY 2012. These increases to operating cash flows in FY 2013 from FY 2012 were partially offset by net unrealized losses from foreign exchange and derivative instruments (see Note 6 of Notes to Condensed Consolidated Financial Statements), which reduce operating results, but are non-cash add-backs for cash flow purposes, of only $0.1 million in FY 2013 as compared to $1.2 million in FY 2012. In both periods, operating cash flows benefitted from the deferral of income taxes, which totaled $3.3 million in FY 2013 and $2.0 million in FY 2012. Historically, operating cash flows are typically enhanced by the deferral of most income taxes due to the rapid tax depreciation rate of our fixed assets and available net operating loss carryforwards. Additionally, in both FY 2013 and FY 2012, operating cash flows were reduced by gains on the sales of lease fleet of $3.3 million and $3.1 million, respectively, and enhanced by non-cash share-based compensation charges of $0.6 million and $0.4 million, respectively.

Investing Activities. Net cash used by investing activities was $41.5 million during FY 2013, as compared to $15.9 million being used during FY 2012. Purchases of property, plant and equipment, or rolling stock, were approximately $4.5 million in FY 2013 versus only $1.3 million in FY 2012; and net capital expenditures of lease fleet (purchases, net of proceeds from sales of lease fleet) were $24.1 million in FY 2013 as compared to $14.9 million in FY 2012. The increase in FY 2013 net capital expenditures from FY 2012 was due to primarily container lease fleet purchases in both the Pan-Pacific area and North America. The amount of cash that we use during any period in investing activities is almost entirely within management s discretion and 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. In FY 2013, we made six business acquisitions, three in Australia and three in the in the United States, for cash totaling $12.9 million (see Note 4 of Notes to Condensed Consolidated Financial Statements). There were no business acquisitions in FY 2012.

Financing Activities. Net cash provided by financing activities was $29.3 million during FY 2013, as compared to $17.2 million provided during FY 2012. In FY 2013, in connection with the refinancing at Pac-Van (see Liquidity and Financial Condition above), we fully repaid the PNC Credit Facility and Laminar Note for $79.2 million and borrowed a net $112.6 million on the existing credit facilities, including the two new Wells Fargo credit facilities, primarily to fund our increasing investment in the container lease fleet and business acquisitions. This compares to increasing outstanding borrowings in FY 2012 by a net $17.6 million. Also in FY 2013, we incurred deferred financing costs of $1.4 million primarily in connection with the refinancing at Pac-Van.

Asset Management

Receivables and inventories were $33.4 million and $42.5 million (including $4.0 million at Southern Frac) at December 31, 2012 and $35.4 million and $31.2 million at June 30, 2012, respectively. Effective asset management remains a significant focus as we strive to continue to apply appropriate credit and collection controls and maintain proper inventory levels to enhance cash flow and profitability. At December 31, 2012, days sales outstanding (DSO) in trade receivables were 41 days and 46 days for Royal Wolf and Pac-Van, as compared to 41 days and 51 days at June 30, 2012, respectively. DSO for Southern Frac at December 31, 2012 was 14 days.

The net book value of our total lease fleet increased from $259.5 million at June 30, 2012 to $290.0 million at December 31, 2012. At December 31, 2012, we had 53,264 units (19,490 units in retail operations in Australia, 10,948 units in national account group operations in Australia, 8,788 units in New Zealand, which are considered retail; and 14,038 units in North America) in our lease fleet, as compared to 48,888 units (18,297 units in retail operations in Australia, 9,971 units in national account group operations in Australia, 8,229 units in New Zealand, which are considered retail; and 12,391 units in North America) at June 30, 2012. At those dates, 44,526 units (16,401 units in retail operations in Australia, 9,695 units in national account group operations in Australia, 7,521 units in New Zealand, which are considered retail; and 10,909 units in North America) and 39,001 units (14,957 units in retail operations in Australia, 7,291 units in national account group operations in Australia, 7,205 units in New Zealand, which are considered retail; and 9,548 units in North America) were on lease, respectively.

In the Asia-Pacific area, the lease fleet was comprised of 35,539 storage and freight containers and 3,687 portable building containers at December 31, 2012; and 33,203 storage and freight containers and 3,294 portable building containers at June 30, 2012. At those dates, units on lease were comprised of 31,026 storage and freight containers and 2,591 portable building containers; and 26,988 storage and freight containers and 2,465 portable building containers, respectively.

In North America, the lease fleet was comprised of 6,658 storage containers, 1,389 office containers (GLOs), 244 portable liquid storage tank containers, 4,763 mobile offices and 984 modular units at December 31, 2012; and 5,247 storage containers, 1,272 office containers, 55 portable liquid storage tank containers, 4,825 mobile offices and 992 modular units at June 30, 2012. At those dates, units on lease were comprised of 5,738 storage containers, 1,147 office containers, 209 portable liquid storage tank containers, 3,060 mobile offices and 755 modular units; and 4,498 storage containers, 1,034 office containers, 39 portable liquid storage tank containers, 3,220 mobile offices and 757 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 sales outstanding trends, a review of historical collection results and a review of specific past due receivables. If the financial condition 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.

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We lease and sell storage, building, office and portable liquid storage tank containers, 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, portable building, office and portable liquid storage tank 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, 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 in 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 performed an annual impairment test on goodwill at June 30 using the quantitative two-step process 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. 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, 2012, there were no significant changes in events or circumstances that were not existing or considered at Royal Wolf or Pac-Van since the annual test at June 30, 2012. Effective July 1, 2012, we adopted the new qualitative assessment now allowable under ASC Topic 350. It will no longer be required for us to calculate the fair value of a reporting unit unless a determination is made based on a qualitative assessment that it is more likely than not (i.e., greater than 50%) that the fair value of the reporting unit is less than its carrying amount. However, if we do determine that fair value is less than the carrying amount, the existing quantitative calculations in steps one and two under ASC Topic 350 continue to apply.

At June 30, 2012, 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 both the Royal Wolf and Pac-Van reporting units exceeded the carrying values of its net assets at June 30, 2012.

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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 tested 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. Effective July 1, 2012, we adopted the new qualitative factors now allowable under ASC Topic 350. If we determine, based on a qualitative assessment, that it is more likely than not (i.e., greater than 50%) that fair value is not impaired, then no further testing is necessary. However, if we determine that fair value is less than the carrying amount, then the existing quantitative calculations under ASC Topic 350 continue to apply.

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 6 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.

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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, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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, 2012, as filed with the SEC on September 17, 2012 (Annual Report). As a result of our acquisition of a 90% interest in Southern Frac, LLC (Southern Frac) on October 1, 2012, we have identified the following significant risk factors pertaining to its operations.

Significant Risks Related Primarily to Our Business and Operations at Southern Frac

Significant competition in the industry in which we operate may result in our competitors offering new or better products and services or lower prices, which could result in a loss of customers and a decrease in our revenues.

The portable liquid storage tank container manufacturing industry is highly competitive. We compete with other manufacturers of varying sizes, some of which have substantial financial resources. Manufacturers compete primarily on the quality of their products, customer relationships, service availability and cost. Barriers to entry are low. As a result, it is possible that additional competitors could enter the market at any time. If we are unable to successfully compete with other portable liquid storage tank container manufacturers we could lose customers and our revenues may decline.

Our business significantly depends on spending by the oil and natural gas industry in the United States, and this spending and our business has been, and may continue to be, adversely affected by industry and financial market conditions that are beyond our control.

We significantly depend on the willingness of the oil and gas industry to make operating and capital expenditures to explore, develop and produce oil and natural gas in the United States. Declines in these expenditures, due to the low natural gas price environment or other factors, could result in project modification, delays or cancellations, general business disruptions, and delays in, or nonpayment of, amounts owed to us by customers. Expectations for lower market prices for oil and natural gas, as well as the availability of capital for operating and capital expenditures, may also cause the curtailment of spending, thereby reducing demand for our liquid storage tank containers. Industry conditions are influenced by numerous factors and events to which we have no control and any of these factors or events that would result in the reduction of drilling activity could adversely affect our operating results and cash flows.

Changes in regulatory, or governmental, oversight of hydraulic fracturing could materially adversely affect the demand for our portable liquid containment products.

Oil and gas exploration and extraction (including use of tanks for hydraulic fracturing of gas and oil shale) are subject to numerous local, state and federal regulations. The hydraulic fracturing method of extraction has come under scrutiny in several states and by the Federal government due to the potential adverse effects that hydraulic fracturing, and the liquids and chemicals used, may have on water quality and public health. In addition, the disposal of wastewater from the hydraulic fracturing process into injection wells may increase the rate of seismic activity near drill sites and could result in regulatory changes, delays or interruption of future activity. Changes in these regulations could limit, interrupt, or stop exploration and extraction activities, which would negatively impact the demand for our portable liquid containment products.

Seasonality of the portable liquid containment industry may impact future quarterly results.

Activity may decline in our second quarter month of December and our third quarter months of January and February. These months may have lower rental activity in parts of the country where inclement weather may delay, or suspend, a company s project. The impact of these delays may be to decrease the number of frac tank containers sold until companies are able to resume their projects when weather improves. These seasonal factors may impact our future quarterly results in each year s second and third quarters.

Difficulties Associated with Fixed Capacity Levels

Our ability to increase manufacturing capacity may require significant investments in equipment and personnel. To the extent that we make investments to increase manufacturing capacity and demand for our products is not sustained, our results of operations and financial condition may be adversely affected. Conversely, if we choose not to make investments to increase manufacturing capacity, our ability to meet customer demand for our products and increase revenues may be adversely affected. Additionally, operating our facilities at near full capacity levels may cause us to incur labor cost at premium rates in order to meet customer requirements, experience increased maintenance expenses or require us to replace our machinery and equipment on an accelerated basis, each of which could cause our results of operations and financial condition to be adversely affected.

Implementation of Operational Improvements

As part of our ongoing focus on being a low-cost provider of high quality products, we continually analyze our business to further improve our operations. Our continued analysis may include identifying and implementing opportunities for: (i) further rationalization of manufacturing capacity; (ii) streamlining of selling, general and administrative overhead; or (iii) efficient investment in new equipment and the upgrading of existing equipment. We may be unable to successfully identify or implement plans targeting these initiatives, or fail to realize the benefits of the plans we have already implemented, as a result of operational difficulties, a weakening of the economy or other factors. Cost reductions may not fully offset decreases in the prices of our products due to the time required to develop and implement cost reduction initiatives. Additional factors such as inconsistent customer ordering patterns, increasing product complexity and heightened quality standards also may make it more difficult to reduce our costs. It is also possible that as we incur costs to implement improvement strategies, the initial impact on our financial position, results of operations and cash flow may be adverse and we may not be able to successfully realize sufficient cost savings to mitigate this adverse impact.

Our business could be harmed if we fail to maintain proper inventory levels.

We are required to maintain sufficient inventories to accommodate the needs of our customers including, in many cases, short lead times on delivery requirements. We purchase raw materials on a regular basis in an effort to maintain our inventory at levels that we believe are sufficient to satisfy the anticipated needs of our customers based upon orders, customer volume expectations, historic buying practices and market conditions. Inventory levels in excess of customer demand may result in the use of higher-priced inventory to fill orders reflecting lower selling prices, if steel prices have significantly decreased. These events could adversely affect our financial results. Conversely, if we underestimate demand for our products or if our suppliers fail to supply quality products in a timely manner, we may experience inventory shortages. Inventory shortages could result in unfilled orders, negatively impacting our customer relationships and resulting in lost revenues, which could harm our business and adversely affect our financial results.

Our future operating results may be affected by fluctuations in raw material prices, and we may be unable to pass on any increases in raw material costs to our customers.

Our principal raw material is steel. The steel industry as a whole has been cyclical, and at times availability and pricing can be volatile due to a number of factors beyond our control. These factors include general economic conditions, domestic and worldwide demand, the influence of hedge funds and other investment funds participating in commodity markets, curtailed production from major suppliers due to factors such as the closing or idling of facilities, accidents or equipment breakdowns, repairs or catastrophic events, labor costs or problems, competition, new laws and regulations, import duties, tariffs, energy costs, availability and cost of steel inputs (e.g., ore, scrap, coke and energy), currency exchange rates and other factors. This volatility, as well as any increases in raw material costs, could significantly affect our steel costs and adversely impact our financial results. If our suppliers increase the prices of our critical raw materials, we may not have alternative sources of supply. In addition, in an environment of increasing prices for steel and other raw materials, competitive conditions may impact how much of the price increases we can pass on to our customers. To the extent we are unable to pass on future price increases in our raw materials to customers, our financial results could be adversely affected. Also, if steel prices decrease, competitive conditions may impact how quickly we must reduce our prices to our customers, and we could be forced to use higher-priced raw materials to complete orders for which the selling prices have decreased. Decreasing steel prices could also require us to write-down the value of our inventory to reflect current market pricing.

The loss of key supplier relationships could adversely affect us.

We have developed relationships with certain steel and other suppliers which have been beneficial to us by providing more assured delivery and a more favorable all-in cost, which includes price and shipping costs. If any of those relationships were disrupted, it could have an adverse effect on delivery times and the overall cost and quality of our raw materials, which could have a negative impact on our business. In addition, we do not have long-term contracts with any of our suppliers. If, in the future, we are unable to obtain sufficient amounts of steel and other products at competitive prices and on a timely basis from our traditional suppliers, we may be unable to obtain these products from alternative sources at competitive prices to meet our delivery schedule, which could have a material adverse affect on our results of operations.

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The costs of manufacturing our products and our ability to supply our customers could be negatively impacted if we experience interruptions in deliveries of needed raw materials or supplies.

If, for any reason, our supply of steel is curtailed or we are otherwise unable to obtain the quantities we need at competitive prices, our business could suffer and our financial results could be adversely affected. Such interruptions could result from a number of factors, including a shortage of capacity in the supplier base of raw materials, energy or the inputs needed to make steel or other supplies, a failure of suppliers to fulfill their supply or delivery obligations, financial difficulties of suppliers resulting in the closing or idling of supplier facilities, other significant events affecting supplier facilities, significant weather events and other factors, all of which are beyond our control.

The loss of significant volume from our key customers could adversely affect us.

A significant loss of, or decrease in, business from any of our key customers could have an adverse effect on our sales and financial results if we cannot obtain replacement business. In addition, certain of our top customers may be able to exert pricing and other influences on us, requiring us to market, deliver and promote our products in a manner that may be more costly to us. Moreover, we generally do not have long-term contracts with our customers. As a result, although our customers periodically provide indications of their product needs and purchases, they generally purchase our products on an order-by-order basis, and the relationship, as well as particular orders, can be terminated at any time.

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

GFN sold 750 shares of Series C Convertible Cumulative Preferred Stock, par value $0.0001 per share and liquidation preference of $1,000 per share (Series C Preferred Stock), to one individual (the Sale) in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended (the Securities Act), and Rule 506 promulgated thereunder.

Pursuant to the Certificate of Designation for the Series C Preferred Stock, each share of Series C Preferred Stock will accrue no dividends unless declared by the board of directors of the Company. The Series C Preferred Stock is automatically convertible into common stock upon the earliest date that the shares of GFN common stock have a closing price equal to or in excess of $5.00 per share on the NASDAQ Stock Market. If after two years the shares have not converted automatically, the holder can convert at there discretion. In addition the shares are redeemable by the Company for cash at any time for the liquidation value plus accrued but unpaid dividends. The Series C Preferred Stock sold in the Sale has not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

Item. 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

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 13, 2013

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
3.1	Certificate of Designation for the Series C Preferred Stock filed with the Delaware Secretary of State on September 28, 2012 (incorporated by reference to Registrant s Form 8-K filed October 4, 2012)
10.1	Credit and Security Agreement dated October 1, 2012 by and among Southern Frac, LLC, a Texas limited liability company (Southern Frac), GFN Manufacturing, GFN and Wells Fargo Bank, National Association (Wells Fargo) (incorporated by reference to Registrant s Form 8-K filed October 4, 2012)
10.2	Security Agreement dated October 1, 2012 by and between GFN Manufacturing and Wells Fargo) (incorporated by reference to Registrant s Form 8-K filed October 4, 2012)
10.3	Continuing Guaranty dated October 1, 2012 by GFN Manufacturing in favor of Wells Fargo) (incorporated by reference to Registrant s Form 8-K filed October 4, 2012)
10.4	Limited Continuing Guaranty dated October 1, 2012 by GFN in favor of Wells Fargo (incorporated by reference to Registrant s Form 8-K filed October 4, 2012)
10.5	Subordination Agreement dated October 1, 2012 by and between GFN Manufacturing and Wells Fargo (incorporated by reference to Registrant s Form 8-K filed October 4, 2012)
10.6	Subordination Agreement dated October 1, 2012 by and between GFN and Wells Fargo (incorporated by reference to Registrant s Form 8-K filed October 4, 2012)
10.7	Variation Letter executed on November 26, 2012 among Australia and New Zealand Banking Group Limited and Royal Wolf (incorporated by reference to Registrant s Form 8-K filed November 28, 2012)
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
101*	The following materials from the Registrant s Quarterly report on Form 10-Q for the quarter ended December 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Equity, (v) the Condensed Consolidated Statements of Cash Flows and (vi) Notes to Condensed Consolidated Financial Statements.

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for the purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.