

Great American Group, Inc.  
Form 10-Q  
May 16, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2011

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 000-54010

**GREAT AMERICAN GROUP, INC.**

(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of)

27-0223495  
(I.R.S. Employer)

Edgar Filing: Great American Group, Inc. - Form 10-Q

Incorporation or Organization)

Identification No.)

21860 Burbank Boulevard, Suite 300 South

Woodland Hills, CA  
(Address of Principal Executive Offices)

91367  
(Zip Code)

(818) 884-3737

(Registrant's telephone number, including area code)

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

As of May 10, 2011, there were 30,800,334 shares of the Registrant's common stock, par value \$0.0001 per share, outstanding.

**Table of Contents**

**Great American Group, Inc.**  
**Quarterly Report on Form 10-Q**  
**For The Quarter Ended March 31, 2011**

**Table of Contents**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1. <u>Unaudited Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010</u>	3
<u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2011 and 2010</u>	4
<u>Condensed Consolidated Statement of Stockholders' Equity (Deficit) for the three months ended March 31, 2011</u>	5
<u>Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2011 and 2010</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
Item 4. <u>Controls and Procedures</u>	30
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	30
Item 1A. <u>Risk Factors</u>	31
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
Item 3. <u>Defaults Upon Senior Securities</u>	36
Item 4. <u>(Reserved)</u>	36
Item 5. <u>Other Information</u>	36
Item 6. <u>Exhibits</u>	36
<u>Signatures</u>	37

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****(Dollars in thousands, except par value)**

	<b>March 31, 2011 (Unaudited)</b>	<b>December 31, 2010</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 21,902	\$ 20,080
Restricted cash	113	
Accounts receivable, net	2,012	3,087
Advances against customer contracts	5,164	3,063
Goods held for sale or auction	12,896	13,504
Note receivable - related party	3,224	5,930
Deferred income taxes	4,999	5,463
Prepaid expenses and other current assets	1,718	1,353
<b>Total current assets</b>	<b>52,028</b>	<b>52,480</b>
Property and equipment, net	1,225	1,369
Goodwill	5,688	5,688
Other intangible assets, net	180	221
Deferred income taxes	11,135	11,372
Other assets	826	1,144
<b>Total assets</b>	<b>\$ 71,082</b>	<b>\$ 72,274</b>
<b>Liabilities and Stockholders Equity (Deficit)</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,553	\$ 10,631
Auction and liquidation proceeds payable	5,883	1,712
Mandatorily redeemable noncontrolling interests	3,167	2,858
Current portion of long-term debt	1,724	1,724
Note payable	11,705	12,014
Current portion of capital lease obligation	27	27
<b>Total current liabilities</b>	<b>28,059</b>	<b>28,966</b>
Capital lease obligation, net of current portion	35	42
Long-term debt, net of current portion	52,169	52,169
<b>Total liabilities</b>	<b>80,263</b>	<b>81,177</b>
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, \$0.0001 par value; 10,000,000 shares authorized; none issued		
Common stock, \$0.0001 par value; 135,000,000 shares authorized; 30,741,794 and 30,559,036 issued and outstanding as of March 31, 2011 and December 31, 2010, respectively	4	4

## Edgar Filing: Great American Group, Inc. - Form 10-Q

Additional paid-in capital	3,146	2,878
Retained earnings (deficit)	(12,318)	(11,792)
Accumulated other comprehensive income (loss)	(13)	7
<b>Total stockholders' equity (deficit)</b>	<b>(9,181)</b>	<b>(8,903)</b>
Total liabilities and stockholders' equity (deficit)	\$ 71,082	\$ 72,274

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

**Table of Contents****GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Operations****(Unaudited)****(Dollars in thousands, except share data)**

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Revenues:</b>		
Services and fees	\$ 13,003	\$ 10,630
Sale of goods	813	1,437
<b>Total revenues</b>	<b>13,816</b>	<b>12,067</b>
<b>Operating expenses:</b>		
Direct cost of services	4,812	5,204
Cost of goods sold	908	1,544
Selling, general and administrative expenses	7,791	8,516
<b>Total operating expenses</b>	<b>13,511</b>	<b>15,264</b>
Operating income (loss)	305	(3,197)
<b>Other income (expense):</b>		
Other income (expense)	(4)	
Interest income	137	90
Income (loss) from equity investment in Great American Real Estate, LLC	68	(412)
Interest expense	(328)	(1,033)
Income (loss) before income taxes	178	(4,552)
(Provision) benefit for income taxes	(704)	1,572
<b>Net income (loss)</b>	<b>\$ (526)</b>	<b>\$ (2,980)</b>
Weighted average basic shares outstanding	28,360,875	27,899,963
Weighted average diluted shares outstanding	28,360,875	27,899,963
Basic and diluted earnings (loss) per share	\$ (0.02)	\$ (0.11)
Diluted earnings (loss) per share	\$ (0.02)	\$ (0.11)

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

**Table of Contents****GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES****Condensed Consolidated Statement of Stockholders Equity (Deficit)****For the Three Months Ended March 31, 2011****(Unaudited)****(Dollars in thousands)**

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Total Stockholders Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balance, January 1, 2011		\$	30,559,036	\$ 4	\$ 2,878	\$ (11,792)	\$ 7	\$ (8,903)
Vesting of restricted stock, net of shares withheld for employee taxes			182,758		(90)			(90)
Share based compensation					358			358
Net loss for the three months ended March 31, 2011						(526)		(526)
Foreign currency translation adjustment							(20)	(20)
Balance, March 31, 2011		\$	30,741,794	\$ 4	\$ 3,146	\$ (12,318)	\$ (13)	\$ (9,181)

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

**Table of Contents****GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows****(Unaudited)****(Dollars in thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (526)	\$ (2,980)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation and amortization	221	180
Provision for doubtful accounts		19
Share-based payments	358	1,358
Effect of foreign currency on operations	(22)	
Non-cash interest	(428)	
Loss (income) from equity investment in Great American Real Estate, LLC	(68)	412
Loss on disposal of assets	3	2
Deferred income taxes	701	(1,572)
Income allocated to mandatorily redeemable noncontrolling interests	738	295
<b>Change in operating assets and liabilities:</b>		
Accounts receivable and advances against customer contracts	(1,026)	79
Goods held for sale or auction	608	85
Prepaid expenses and other assets	186	(542)
Accounts payable and accrued expenses	(5,078)	(3,963)
Auction and liquidation proceeds payable	4,171	689
<b>Net cash used in operating activities</b>	<b>(162)</b>	<b>(5,938)</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(39)	(116)
Decrease (increase) in note receivable related party	2,706	(2,706)
Equity investment in Great American Real Estate, LLC	(46)	(150)
Decrease (increase) in restricted cash	(113)	459
<b>Net cash provided by (used in) investing activities</b>	<b>2,508</b>	<b>(2,513)</b>
<b>Cash flows from financing activities:</b>		
Repayments of capital lease obligations	(7)	(6)
Payment of employment taxes on vesting of restricted stock	(90)	(948)
Distribution to noncontrolling interests	(429)	(287)
<b>Net cash used in financing activities</b>	<b>(526)</b>	<b>(1,241)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>1,820</b>	<b>(9,692)</b>
Effect of foreign currency on cash	2	
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,822</b>	<b>(9,692)</b>
Cash and cash equivalents, beginning of period	20,080	37,989

Edgar Filing: Great American Group, Inc. - Form 10-Q

Cash and cash equivalents, end of period	\$ 21,902	\$ 28,297
Supplemental disclosures:		
Interest paid	\$ 122	\$ 1,670

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

**Table of Contents**

**GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Dollars in thousands, except share data)**

**NOTE 1 ORGANIZATION, BUSINESS OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

***Organization and Nature of Operations***

Great American Group, Inc. (the Company) was incorporated under the laws of the state of Delaware on May 7, 2009 as a wholly-owned subsidiary of Alternative Asset Management Acquisition Corp. (AAMAC). The Company was formed as a shell company for the purpose of acquiring Great American Group, LLC (GAG, LLC), a California limited liability company.

On July 31, 2009, the members of GAG, LLC (the Great American Members) contributed all of their membership interests of GAG, LLC to the Company (the Contribution) in exchange for 10,560,000 shares of common stock of the Company and a subordinated unsecured promissory note in an initial principal amount of \$60,000 issued in favor of the Great American Members and the phantom equityholders of GAG, LLC (the Phantom Equityholders), and together with the Great American Members, the Contribution Consideration Recipients (see Note 7). Concurrently with the Contribution, AAMAC merged with and into AAMAC Merger Sub, Inc. (Merger Sub), a subsidiary of the Company (the Merger and, together with the Contribution, the Acquisition). As a result of the Acquisition, GAG, LLC and AAMAC became wholly-owned subsidiaries of the Company. The Acquisition has been accounted for as a reverse merger accompanied by a recapitalization of the Company.

The Company operates in two operating segments: auction and liquidation services (Auction and Liquidation) and valuation and appraisal services (Valuation and Appraisal). These services are provided to a wide range of retail, wholesale and industrial companies, as well as lenders, capital providers, private equity investors and professional service firms throughout the United States, Europe and Canada. In the Auction and Liquidation segment, the Company provides auction and liquidation services to help clients dispose of assets and capital advisory services to retailers. Such assets include multi-location retail inventory, wholesale inventory, trade fixtures, machinery and equipment, intellectual property and real property. In the Valuation and Appraisal segment, the Company provides valuation and appraisal services to clients with independent appraisals in connection with asset based loans, acquisitions, divestitures and other business needs. From time to time, the Company will conduct auction and liquidation services with third parties through collaborative arrangements.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***(a) Liquidity Matters***

Over the past years, the Company's growth has been funded through a combination of profits generated from operations and more recently from proceeds received from AAMAC in connection with the Acquisition. During the year ended December 31, 2010 and three months ended March 31, 2011, the operating profits generated by the Company's Auction and Liquidation segment have been negatively impacted due to fewer retail liquidation engagements conducted by the Company. As economic conditions and credit markets have improved for retailers, the number of large retail liquidation engagements in the auction and liquidation industry has decreased from historical levels. These factors, in addition to the interest expense on the \$53,893 of subordinated, unsecured promissory notes payable to the Great American Members and Phantom Equityholders, have resulted in the net use of \$162 and \$6,083 of cash from operations during the three months ended March 31, 2011 and year ended December 31, 2010, respectively.

On May 4, 2010, the Company entered into individual amendments to an aggregate of \$52,419 of the \$55,617 principal amount outstanding of the subordinated, unsecured promissory notes payable to the Great American Members and Phantom Equityholders and the interest rate was reduced from 12.0% per annum to 3.75% per annum. In addition, the maturity date for \$46,996 of the \$55,617 principal amount outstanding of the subordinated, unsecured promissory notes payable to the Great American Members was extended to July 31, 2018, subject to annual prepayments based upon the Company's cash flow subject to certain limitations as provided in the amendment to the notes payable, including, without limitation, the Company's maintenance of a minimum adjusted cash balance of \$20,000. The terms of these amendments significantly reduce the annual cash required to service this debt. On October 27, 2010, the Company entered into individual waivers related to an aggregate of \$51,334 of the \$53,893 principal amount outstanding of the subordinated, unsecured promissory notes payable to the Great American Members and Phantom Equityholders, whereby the noteholders agreed to permit the Company to defer payment of interest payments due on each of October 31, 2010, January 31, 2011, and April 30, 2011 until July 31, 2011.



**Table of Contents**

**GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except share data)**

In addition to amending the subordinated, unsecured promissory notes payable to the Great American Members and Phantom Equityholders, the Company implemented cost reduction measures in September 2010 which resulted in a reduction in employee headcount, reduction in base salaries to senior executives, and other cost savings measures.

As of March 31, 2011, the Company had \$21,902 in cash and no borrowings outstanding under the asset based credit facility. The Company believes that its current cash and cash equivalents, funds available under its asset based credit facility and cash expected to be generated from operating activities will be sufficient to meet its working capital and capital expenditure requirements for at least the next 12 months. The Company continues to monitor its financial performance to ensure sufficient liquidity to fund operations.

***(b) Principles of Consolidation and Basis of Presentation***

The condensed consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries: AAMAC, GAG, LLC, Great American Group Advisory & Valuation Services, LLC ( GAAV ), Great American Group Machinery & Equipment, LLC ( GAME ), Great American Group Real Estate, LLC, Great American Venture, LLC, Great American Group Energy Equipment, LLC ( GAGEE ), Great American Group Intellectual Property Advisors, LLC, GA Capital, LLC, GA Asset Advisors Limited, Great American Group WF, LLC, and Great American Group CS, LLC. All intercompany accounts and transactions have been eliminated upon consolidation.

Effective January 1, 2010, new consolidation guidance became effective relating to accounting for Variable Interest Entities ( VIE ). These changes require an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity; to require ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE; to eliminate the solely quantitative approach previously required for determining the primary beneficiary of a VIE; to add an additional reconsideration event for determining whether an entity is a VIE when any changes in facts and circumstances occur such that holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity's economic performance; and to require enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise's involvement in a VIE. As more fully described in Note 13, the Company determined that its equity investment and subordinated financing arrangements with Great American Real Estate, LLC ( GARE ), a joint venture 50% owned by the Company and Kelly Capital, LLC, changes the status of GARE to a VIE that does not require consolidation in the Company's consolidated financial statements. The adoption of these changes had no material impact on the Company's condensed consolidated financial statements.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ( GAAP ) for interim financial information and in accordance with the rules and regulations of the SEC. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements as permitted under applicable rules and regulations. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included. The results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results to be expected for the year ending December 31, 2011.

The preparation of the condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and notes thereto. Actual results could differ from those estimates.

***(c) Revenue Recognition***

Revenues are recognized in accordance with the accounting guidance when persuasive evidence of an arrangement exists, the related services have been provided, the fee is fixed or determinable, and collection is reasonably assured.

Revenues in the Valuation and Appraisal segment are primarily comprised of fees for valuation and appraisal services. Revenues are recognized upon the delivery of the completed services to the related customers and collection of the fee is reasonably assured. Revenues in the Valuation

## Edgar Filing: Great American Group, Inc. - Form 10-Q

and Appraisal segment also include contractual reimbursable costs which totaled \$568 and \$633 for the three months ended March 31, 2011 and 2010, respectively.

Revenues in the Auction and Liquidation segment are comprised of (i) commissions and fees earned on the sale of goods at auctions and liquidations; (ii) revenues from auction and liquidation services contracts where the Company guarantees a minimum recovery value for goods being sold at auction or liquidation; (iii) revenue from the sale of goods that are purchased by the Company for sale at auction or liquidation sales events; (iv) fees earned from the origination of loans; and (v) revenues from contractual reimbursable expenses incurred in connection with auction and liquidation contracts.

**Table of Contents**

**GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except share data)**

Commission and fees earned on the sale of goods at auction and liquidation sales are recognized when evidence of an arrangement exists, the sales price has been determined, title has passed to the buyer and the buyer has assumed the risks of ownership, and collection is reasonably assured. The commission and fees earned for these services are included in revenues in the accompanying consolidated statement of operations. Under these types of arrangements, revenues also include contractual reimbursable costs which totaled \$947 and \$2,675 for three months ended March 31, 2011 and 2010, respectively.

Revenues earned from auction and liquidation services contracts where the Company guarantees a minimum recovery value for goods being sold at auction or liquidation are recognized based on proceeds received. The Company records proceeds received from these types of engagements first as a reduction of contractual reimbursable expenses, second as a recovery of its guarantee and thereafter as revenue, subject to such revenue meeting the criteria of having been fixed or determinable. Contractual reimbursable expenses and amounts advanced to customers for minimum guarantees are initially recorded as advances against customer contracts in the accompanying consolidated balance sheets. If, during the auction or liquidation sale, the Company determines that the proceeds from the sale will not meet the minimum guaranteed recovery value as defined in the auction or liquidation services contract, the Company accrues a loss on the contract in the period that the loss becomes known.

The Company also evaluates revenue from auction and liquidation contracts in accordance with the accounting guidance to determine whether to report auction and liquidation segment revenue on a gross or net basis. The Company has determined that it acts as an agent in a substantial majority of its auction and liquidation services contracts and therefore reports the auction and liquidation revenues on a net basis.

Revenues from the sale of goods are recorded gross and are recognized in the period in which the sale of goods held for sale or auction are completed, title to the property passes to the purchaser and the Company has fulfilled its obligations with respect to the transaction. These revenues are primarily the result of the Company acquiring title to merchandise with the intent of selling the items at auction or for augmenting liquidation sales.

Fees earned from the origination of loans where the Company provides capital advisory services are recognized in the period earned, the fee is fixed and determinable and collection is reasonably assured.

In the normal course of business, the Company will enter into collaborative arrangements with other merchandise liquidators to collaboratively execute auction and liquidation contracts. The Company's collaborative arrangements specifically include contractual agreements with other liquidation agents in which the Company and such other liquidation agents actively participate in the performance of the liquidation services and are exposed to the risks and rewards of the liquidation engagement. The Company's participation in collaborative arrangements including its rights and obligations under each collaborative arrangement can vary. Revenues from collaborative arrangements are recorded net based on the proceeds received from the liquidation engagement. Amounts paid to participants in the collaborative arrangements are reported separately as direct costs of revenues. Revenue from collaborative arrangements in which the Company is not the majority participant is recorded net based on the Company's share of proceeds received. There were \$1,220 of revenues and \$671 of direct cost of services subject to collaborative arrangements during the three months ended March 31, 2011 and no revenues and expenses subject to collaborative arrangements during the three months ended March 31, 2010.

***(d) Direct Cost of Services***

Direct cost of services relate to service and fee revenues. The costs consist of employee compensation and related payroll benefits, travel expenses, the cost of consultants assigned to revenue-generating activities and direct expenses billable to clients in the Valuation and Appraisal segment. Direct costs of services include participation in profits under collaborative arrangements in which the Company is a majority participant. Direct costs of services also include the cost of consultants and other direct expenses related to auction and liquidation contracts pursuant to commission and fee based arrangements in the Auction and Liquidation segment. Direct cost of services does not include an allocation of the Company's overhead costs.

***(e) Concentration of Risk***

## Edgar Filing: Great American Group, Inc. - Form 10-Q

The Company's activities in the Auction and Liquidation segment are executed frequently with, and on behalf of, distressed customers and secured creditors. Concentrations of credit risk can be affected by changes in economic, industry, or geographical factors. The Company seeks to control its credit risk and potential risk concentration through risk management activities that limit the Company's exposure to losses on any one specific liquidation services contract or concentration within any one specific industry. To mitigate the exposure to losses on any one specific liquidation services contract, the Company sometimes conducts operations with third parties through collaborative arrangements. Revenues from one liquidation service contract in the United Kingdom represented 10.4% of total revenues during the three months ended March 31, 2011.

**Table of Contents**

**GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except share data)**

The Company maintains cash in various federally insured banking institutions. The account balances at each institution periodically exceed the Federal Deposit Insurance Corporation's (FDIC) insurance coverage, and as a result, there is a concentration of credit risk related to amounts in excess of FDIC insurance coverage. The Company has not experienced any losses in such accounts. The Company also has substantial cash balances from proceeds received from auctions and liquidation engagements that are distributed to parties in accordance with the collaborative arrangements.

***(f) Income Taxes***

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statement basis and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company estimates the degree to which tax assets and credit carryforwards will result in a benefit based on expected profitability by tax jurisdiction. A valuation allowance for such tax assets and loss carryforwards is provided when it is determined to be more likely than not that the benefit of such deferred tax asset will not be realized in future periods. Tax benefits of operating loss carryforwards are evaluated on an ongoing basis, including a review of historical and projected future operating results, the eligible carryforward period, and other circumstances. If it becomes more likely than not that a tax asset will be used, the related valuation allowance on such assets would be reduced.

***(g) Cash and Cash Equivalents***

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

***(h) Restricted Cash***

The Company maintains deposits in an account under the control of a financial institution as collateral for amounts due in accordance with the \$11,705 note payable described in Note 8. As of March 31, 2011, the total cash held in a restricted account was \$113.

***(i) Accounts Receivable***

Accounts receivable represents amounts due from the Company's valuation and appraisal customers. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management utilizes a specific customer identification methodology. Management also considers historical losses adjusted for current market conditions and the customers' financial condition and the current receivables aging and current payment patterns. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers. There was no bad debt expense during the three months ended March 31, 2011 and bad debt expense totaled \$19 for the three months ended March 31, 2010. Bad debt expense is included as a component of selling, general and administrative expenses in the accompanying condensed consolidated statement of operations.

***(j) Goods Held for Sale or Auction***

Goods held for sale or auction are stated at the lower of cost, determined by the specific-identification method, or market.

***(k) Property and Equipment***

Property and equipment are stated at cost. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets. Property and equipment held under capital leases are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Property and equipment under capital leases are stated at the present value of minimum lease payments. Depreciation and amortization expense was \$173 and \$140 for the three months ended March 31, 2011 and 2010, respectively.

*(1) Goodwill and Other Intangible Assets*

The Company accounts for goodwill and intangible assets in accordance with the accounting guidance which requires that goodwill and other intangibles with indefinite lives be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value.

**Table of Contents****GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in thousands, except share data)**

Goodwill includes (i) the excess of the purchase price over the fair value of net assets acquired in a business combination described in Note 5 and (ii) an increase for the subsequent acquisition of noncontrolling interests during the year ended December 31, 2007 (also see Note 5). The Codification requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment). Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value. The Company operates two reporting units, which are the same as its reporting segments described in Note 14. Significant judgment is required to estimate the fair value of reporting units which includes estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment.

The Company reviewed its reporting units for possible goodwill impairment by comparing the fair values of each of the reporting units to the carrying value of their respective net assets. If the fair values exceed the carrying values of the net assets, no goodwill impairment is deemed to exist. If the fair values of the reporting units do not exceed the carrying values of the net assets, goodwill is tested for impairment and written down to its implied value if it is determined to be impaired. Based on a review of the fair value of the reporting units, no impairment is deemed to exist as of December 31, 2010.

In accordance with the Codification, the Company reviews the carrying value of its amortizable intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the asset or asset group, if any, exceeds its fair market value. No impairment was deemed to exist as of December 31, 2010.

***(m) Fair Value Measurements***

On January 1, 2009, the Company adopted the new accounting guidance and all other guidance related to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

The Company records mandatorily redeemable noncontrolling interests that were issued after November 5, 2003 at fair value (see Note 12(a)) with fair value determined in accordance with the Codification. The following table below presents information about the Company's mandatorily redeemable noncontrolling interests that are measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010 which are categorized using the three levels of fair value hierarchy. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) for identical instruments that are highly liquid, observable and actively traded in over-the-counter markets. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable and can be corroborated by market data. Level 3 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

**Table of Contents****GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Dollars in thousands, except share data)

The following tables present information on the liabilities measured and recorded at fair value on a recurring basis as of March 31, 2011 and December 31, 2010.

	Financial Assets Measured at Fair Value on a Recurring Basis at March 31, 2011, Using			
	Fair Value at March 31, 2011	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	\$ 2,129	\$	\$	\$ 2,129
Total liabilities measured at fair value	\$ 2,129	\$	\$	\$ 2,129

	Financial Assets Measured at Fair Value on a Recurring Basis at December 31, 2010, Using			
	Fair Value at December 31, 2010	Quoted prices active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	\$ 2,132	\$	\$	\$ 2,132
Total liabilities measured at fair value	\$ 2,132	\$	\$	\$ 2,132

The Company determined the fair value of mandatorily redeemable noncontrolling interests described above based on the issuance of similar interest for cash, references to industry comparables, and relied, in part, on information obtained from appraisal reports prepared by outside specialists.

The carrying amounts reported in the condensed consolidated financial statements for cash, restricted cash, accounts receivable, accounts payable and accrued expenses and other current liabilities approximate fair value based on the short-term maturity of these instruments. The carrying amounts of the notes payable (including credit lines used to finance liquidation engagements), long-term debt and capital lease obligations approximate fair value because the contractual interest rates or effective yields of such instruments are consistent with current market rates of interest for instruments of comparable credit risk. The adoption of the new accounting guidance for fair value measurements did not have a material impact on the Company's condensed consolidated financial statements.

**(n) Fiduciary Funds**

## Edgar Filing: Great American Group, Inc. - Form 10-Q

The accompanying condensed consolidated balance sheets do not include fiduciary funds, which are held by the Company on behalf of clients in connection with the administration of loans in the performance of capital advisory services and which amounted to \$2,541 and \$6,945 at March 31, 2011 and December 31, 2010, respectively.

### ***(o) Recent Accounting Pronouncements***

In December 2010 the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2010-28, *Intangibles Goodwill and Other (Topic 350). When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* . ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts by requiring an entity to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. This update will be effective for fiscal years beginning after December 15, 2010. The adoption of this standard did not have a material impact on the Company s consolidated financial position and results of operation.

**Table of Contents****GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Dollars in thousands, except share data)

**NOTE 3 ACCOUNTS RECEIVABLE**

The components of accounts receivable, net, include the following:

	March 31, 2011	December 31, 2010
Accounts receivable not subject to factoring agreement	\$ 1,268	\$ 2,052
Unbilled receivables	20	189
Amounts due from factor	739	861
Total accounts receivable	2,027	3,102
Allowance for doubtful accounts	(15)	(15)
Accounts receivable, net	\$ 2,012	\$ 3,087

Additions and changes to the allowance for doubtful accounts consist of the following:

	Three Months Ended March 31, 2011	March 31, 2010
Balance, beginning of period	\$ 15	\$ 18
Add: Additions to reserve		19
Less: Deductions and write-offs		(7)
Balance, end of period	\$ 15	\$ 30

Unbilled receivables represent the amount of contractual reimbursable costs and fees for services performed in connection with fee and service based auction and liquidation contracts.

GAAV is a party to a factoring agreement, dated as of May 22, 2007 (the "Factoring Agreement") with FCC LLC, d/b/a First Capital Western Region, LLC (the "Factor"). The Factoring Agreement, which provides for an initial term of two years and annual one-year automatic extensions unless GAAV provides written notice of termination to the Factor, will expire on May 22, 2011. The Company is in negotiations to extend the terms of the Factoring Agreement or replace the Factor Agreement with another factoring company, finance company or bank. The Factor, at its discretion, purchases on a nonrecourse basis all of GAAV's customer receivables. The Factor is responsible for servicing the receivables. The Factor pays 90% of the net receivable invoice amount upon request by GAAV and retains the remaining 10% in a reserve. The Factor, at its discretion, may offset the reserve for amounts not collected or outstanding at the end of the term of the Factoring Agreement. GAAV may request releases from the reserve for any excess over a minimum balance set by the Factor. The Factor charges a factoring commission equal to 0.25% of the gross invoice amount of each account purchased, or five dollars per invoice, whichever is greater, with a minimum commission of \$24 per year, prorated for the first year. The Factor also charges interest at prime plus 1% with a floor of 8% on the net uncollected outstanding balance of the receivables purchased. Effective December 1, 2009, the interest charge by the Factor was reduced to London Interbank Offered Rate (LIBOR) plus 4.5% on the net uncollected outstanding balance of the receivables purchased. One of the members of GAAV personally guarantees up to a maximum of \$500 plus interest and certain fees for accounts receivables sold pursuant to the Factoring Agreement.

## Edgar Filing: Great American Group, Inc. - Form 10-Q

The sale of the receivables is accounted for in accordance with the accounting guidance for transfers and servicing of financial assets and extinguishments of liabilities. In accordance with the Codification, receivables are considered sold when they are transferred beyond the reach of the Company and its creditors, the purchaser has the right to pledge or exchange the receivables, and the Company has surrendered control over the transferred receivables. Accounts receivable sold to the Factor were \$3,461 and \$3,495 during the three months ended March 31, 2011 and 2010, respectively. Factoring commissions and other fees based on advances were \$22 and \$21 for the three months ended March 31, 2011 and 2010, respectively. Factoring commissions and other fees are included in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations.

**Table of Contents****GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Dollars in thousands, except share data)

**NOTE 4 GOODS HELD FOR SALE OR AUCTION**

	March 31, 2011	December 31, 2010
Machinery and equipment	\$ 9,705	\$ 10,227
Leased equipment	1,922	1,969
Aircraft parts and other	1,269	1,308
Total	\$ 12,896	\$ 13,504

Goods held for sale or auction includes machinery and equipment, leased equipment with a carrying value of \$2,000 less accumulated depreciation of \$78, and aircraft parts and other as of March 31, 2011. Machinery and equipment is primarily comprised of oil rigs with a carrying value of \$9,705 which includes a lower of cost or market adjustment of \$1,056 as of March 31, 2011 and December 31, 2010. The leased equipment consists of one oil rig and is depreciated over a period of 15 years which approximates its useful life. Aircraft parts and other is primarily comprised of aircraft parts with a carrying value of \$1,151 and \$1,185 as of March 31, 2011 and December 31, 2010, respectively, which includes a lower of cost or market adjustment of \$543.

Machinery and equipment with a carrying value of \$9,705 and leased equipment with a carrying value of \$1,922 serve as collateral for the \$11,705 note payable as of March 31, 2011 as more fully described in Note 8.

**NOTE 5 GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill of \$5,688 is comprised of \$1,975 of goodwill in the Auction and Liquidation segment and \$3,713 of goodwill in the Valuation and Appraisal segment. There have been no changes to the carrying amount of goodwill since December 31, 2007.

Other intangible assets with finite lives includes customer relationships which are being amortized over their estimated useful lives of 6 years. Amortization expense was \$41 and \$40 for the three months ended March 31, 2011 and 2010, respectively. At March 31, 2011, the estimated future amortization expense in fiscal year 2011 is \$40.

Trademarks have been identified as an indefinite lived intangible asset and are presented with definite lived intangible assets as follows:

	March 31, 2011		
	Gross carrying amount	Accumulated amortization	Net
Customer relationships	\$ 970	\$ 930	\$ 40
Trademarks	140		140
Total	\$ 1,110	\$ 930	\$ 180

December 31, 2010

Net

Edgar Filing: Great American Group, Inc. - Form 10-Q

	<b>Gross carrying amount</b>	<b>Accumulated amortization</b>	
Customer relationships	\$ 970	\$ 889	\$ 81
Trademarks	140		140
<b>Total</b>	<b>\$ 1,110</b>	<b>\$ 889</b>	<b>\$ 221</b>

**Table of Contents****GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Dollars in thousands, except share data)

**NOTE 6 CREDIT FACILITIES**

On October 21, 2008, the Company entered into a \$75,000 asset based credit facility with a financial institution which had an initial expiration date of October 21, 2010. On July 16, 2010, the credit agreement was amended to increase the amount of credit advances and letter of credit obligations from an aggregate of \$75,000 to \$100,000 and extend the term of the credit facility to July 16, 2013. In addition, the base rate for the revolving loan amount was amended to the greater of (1) the Wells Fargo prime rate; (2) the LIBOR plus 1.00% and (3) the Federal Funds Effective Rate plus 0.50%. Prior to the amendment, the base rate was the Wells Fargo prime rate. In connection with the amendment, the Company paid a renewal fee of \$250. On December 8, 2010, the credit agreement was amended and restated to allow for borrowings by the Company's wholly owned subsidiary in the United Kingdom. Cash advances and the issuance of letters of credit under the credit facility are made at the lender's discretion. The letters of credit issued under this facility are furnished by the lender to third parties for the principal purpose of securing minimum guarantees under liquidation services contracts more fully described in Note 2(c). All outstanding loans, letters of credit, and interest are due on the expiration date which is generally within 180 days of funding. The credit facility is secured by the proceeds received for services rendered in connection with liquidation service contracts pursuant to which any outstanding loan or letters of credit are issued and the assets that are sold at liquidation related to such contract. The credit facility also provides for success fees in the amount of 5% to 20% of the profits earned on the liquidation contract, if any, as defined in the credit facility. Interest expense totaled \$15 (including success fees of \$15) and \$72 (including success fees of \$50) for the three months ended March 31, 2011 and 2010, respectively. There was no outstanding balance under this credit facility at March 31, 2011 and December 31, 2010.

The credit agreement governing the credit facility contains certain covenants, including covenants that limit or restrict the Company's ability to incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, merge or consolidate and enter into certain transactions with affiliates. Upon the occurrence of an event of default under the credit agreement, lender may cease making loans, terminate the credit agreement and declare all amounts outstanding under the credit agreement to be immediately due and payable. The credit agreement specifies a number of events of default (some of which are subject to applicable grace or cure periods), including, among other things, nonpayment defaults, covenant defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency defaults, and material judgment defaults.

**NOTE 7 LONG-TERM DEBT**

Long-term debt consists of the following arrangements:

	March 31, 2011	December 31, 2010
\$60,000 notes payable to each of the Great American Members and the Phantom Equityholders of GAG, LLC issued in connection with the Acquisition dated July 31, 2009	\$ 53,893	\$ 53,893
Total long-term debt	53,893	53,893
Less current portion of long-term debt	1,724	1,724
Long-term debt, net of current portion	\$ 52,169	\$ 52,169

***\$60,000 Notes Payable***

On July 31, 2009, in connection with the Acquisition, the Company issued a note payable to the Contribution Consideration Recipients in the initial principal amount of \$60,000. In connection with the closing of the Acquisition, an initial principal payment of \$4,383 was made, thereby reducing the principal amount of the note to \$55,617. On August 28, 2009, the note was replaced with separate subordinated unsecured

## Edgar Filing: Great American Group, Inc. - Form 10-Q

promissory notes (collectively, the Notes ) issued in favor of each of the Contribution Consideration Recipients. Prior to the Amendments described below, all Notes were payable in five equal annual principal payments in the aggregate amount of \$11,123 due on the anniversary date of the Notes beginning on July 31, 2010 through July 31, 2014 with interest payable quarterly in arrears beginning October 31, 2009 at 12% per annum. On May 4, 2010, the Company entered into individual amendments (each, an Amendment and collectively, the Amendments ) to an aggregate of \$52,419 of the \$55,617 principal amount outstanding of the subordinated unsecured promissory notes, which reduced the interest rate on the amended notes from 12.0% per annum to 3.75% per annum. The interest rate reduction was effective retroactive to February 1, 2010. In addition, the maturity date for \$46,996 of the \$55,617 principal amount outstanding of the subordinated, unsecured promissory notes was extended to July 31, 2018, subject to annual prepayments based upon the Company's cash flow, provided that we are not obligated to make such prepayments if our minimum adjusted cash balance is below \$20,000. Each prepayment, if any, is due within 30 days of the filing of the Company's Annual Report on Form 10-K, beginning with the Form 10-K for the fiscal year ending December 31, 2010. There were no prepayments due on the notes payable under this prepayment provision on April 30, 2011. The remaining notes with \$8,621 principal amount outstanding

**Table of Contents****GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in thousands, except share data)**

continue to be payable in five equal annual principal payments as described above. On October 27, 2010, the Company entered into individual waivers for an aggregate of \$51,334 of the \$53,893 principal amount outstanding of the subordinated, unsecured promissory notes payable to the Great American Members and Phantom Equityholders, whereby the noteholders agreed to permit the Company to defer payment of interest payments due on each of October 31, 2010, January 31, 2011, and April 30, 2011 until July 31, 2011. Interest expense was \$550 and \$942 for the three months ended March 31, 2011 and 2010, respectively. Accrued interest payable was \$1,336 and \$899 on the notes payable as of March 31, 2011 and December 31, 2010, respectively.

**NOTE 8 NOTE PAYABLE**

On May 29, 2008, GAGEE entered into a credit agreement with Garrison Special Opportunities Fund LP and Gage Investment Group LLC (collectively, the Lenders ) to finance the purchase of certain machinery and equipment to be sold at auction or liquidation. The principal amount of the loan was \$12,000 and borrowings bore interest at a rate of 20% per annum. The loan is collateralized by the machinery and equipment which were purchased with the proceeds from the loan. GAGEE was required to make principal and interest payments from proceeds from the sale of the machinery and equipment. GAGEE is a special purpose entity created to purchase the machinery and equipment, whose assets consist only of the machinery and equipment in question and whose liabilities are limited to the Lenders note and certain operational expenses related to this transaction. GAG, LLC guaranteed GAGEE s liabilities to the Lenders up to a maximum of \$1,200. The original maturity date of the loan was May 29, 2009; however, GAGEE exercised its right to extend the maturity date for 120 days until September 26, 2009. A fee of \$180 was paid in connection with the extension. On September 26, 2009, the note payable became due and payable.

On October 8, 2009, GAGEE and GAG, LLC entered into a Forbearance Agreement effective as of September 27, 2009 (the Forbearance Agreement ) with the Lenders and Garrison Loan Agency Services LLC ( Administrative Agent ), relating to the credit agreement, by and among GAGEE, as borrower, GAG, LLC, as guarantor, the Lenders and the Administrative Agent. Pursuant to the terms of the Forbearance Agreement, the Lenders agreed to forbear from exercising any of the remedies available to them under the credit agreement and the related security agreement until November 17, 2009, unless a forbearance default occurs, as specified in the Forbearance Agreement. Also, pursuant to the terms of the Forbearance Agreement, GAGEE agreed to hold an auction of the assets collateralizing GAGEE obligations under the credit agreement on or before November 3, 2009 and to use the sale proceeds to repay its obligations under the credit agreement. In connection with the execution of the Forbearance Agreement, GAG, LLC made a payment of \$1,200 on October 9, 2009, in full satisfaction of its guaranty under the credit agreement which reduced the principal amount of borrowings and interest due under the credit agreement. Pursuant to the Forbearance Agreement, the Company held an auction of the assets collateralizing GAGEE s obligation on November 3, 2009. The sale of the assets at auction was subject to meeting the reserve prices and approval by the Lenders, and the auction did not result in the sale of any of the assets.

On December 31, 2009, GAGEE entered into an amendment to credit agreement (the First Amendment to Credit Agreement ) dated as of December 18, 2009 with Garrison Special Opportunities Fund LP and the Administrative Agent, whereby the Lender agreed to forbear from exercising any of the remedies available to them under the Forebearance Agreement and the related Security Agreement and to extend the maturity date of the Forebearance Agreement until November 18, 2010, unless a forbearance default occurs, as specified in the credit agreement, as amended. Pursuant to the terms of the First Amendment to Credit Agreement the interest rate was reduced from 20% to 0% and the Lender agreed to reimburse GAGEE for certain expenses from proceeds of the sale assets that collateralize the credit agreement. The Forbearance Agreement expired on November 18, 2010. The Company and GAGEE entered into the Waiver and Second Amendment to Credit Agreement with the Lenders (the Second Amendment to Credit Agreement ) on May 9, 2011 which extended the maturity date of the note payable to December 31, 2011 with an interest rate of 0% through maturity. The Second Amendment to Credit Agreement also provides for the Lender to reimburse GAGEE for certain expenses from proceeds of the sale or lease of the assets that collateralize the note payable

GAG, LLC has satisfied its obligation to pay the \$1,200 guarantee and the credit agreement does not provide for other recourse against GAG, LLC or the Company. At March 31, 2011 and December 31, 2010, the aggregate principal balance of the note payable was \$11,705 and \$12,014, respectively. The reduction in principal balance during the three months ended March 31, 2011 is the result of the reversal of interest expense during the three months ended March 31, 2011 that was accrued during the period from the date of the expiration of the First Amendment to Credit Agreement on November 18, 2010 to December 31, 2010 at an interest rate of 22% (the default rate), as the Second Amendment to Credit Agreement provides for an interest rate of 0% for that period. The reversal of interest expense of \$309 during three months ended March 31, 2011 is reflected in the condensed consolidated statement of operations as a reduction of interest expense.



Table of Contents

## GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except share data)

## NOTE 9 INCOME TAXES

The Company's provision (benefit) for income taxes consists of the following:

	Three Months Ended March 31,	
	2011	2010
Current:		
Federal	\$	\$
State	3	1
Total current provision	3	1
Deferred:		
Federal	554	(1,247)
State	147	(326)
Total deferred provision (benefit)	701	(1,573)
Total provision (benefit) for income taxes	\$ 704	\$ (1,572)

A reconciliation of the federal statutory rate of 34% for the three months ended March 31, 2011 and 2010 to the effective tax rate for income (loss) from operations before income taxes is as follows:

	Three Months Ended March 31,	
	2011	2010
Provision (benefit) for income taxes at federal statutory rate	34.0%	(34.0)%
State income taxes, net of federal benefit	5.6	(5.4)
Tax differential on vesting of restricted stock	353.9	
Other	2.0	4.9
Effective income tax rate	395.5%	(34.5)%

Deferred income tax assets (liabilities) consisted of the following:

	March 31, 2011	December 31, 2010
Deferred tax assets:		
Goods held for sale or auction	\$ 1,056	\$ 1,065
Deductible goodwill	610	626

## Edgar Filing: Great American Group, Inc. - Form 10-Q

Accrued liabilities	691	697
Mandatorily redeemable noncontrolling interests	726	732
Note payable to Phantom Equityholders	2,480	2,501
Share based payments	417	934
Other	66	51
Net operating loss carryforward	10,088	10,229
Total deferred tax assets	\$ 16,134	\$ 16,835

As of December 31, 2010, the Company had federal net operating loss carryforwards of \$25,041 and state net operating loss carryforwards of \$20,156. The Company's federal net operating loss carryforwards will expire in the tax year ending December 31, 2030 and the state net operating loss carryforwards will expire in 2031.

The Company establishes a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Tax benefits of operating loss and tax credit carryforwards are evaluated on an ongoing basis, including a review of historical and projected future operating results, the eligible carryforward period, and other circumstances. As of March 31, 2011 and December 31, 2010, the Company believes that it is more-likely-than-not that future taxable earnings will be sufficient to realize its deferred tax assets and has not provided an allowance.

**Table of Contents****GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in thousands, except share data)**

The Company's uncertain tax positions are related to tax years that remain subject to examination by the relevant taxing authorities. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the calendar year ended December 31, 2010 and 2009. The Company and its subsidiaries' state tax returns are also open to audit under similar statutes of limitations for the same tax years. The Company accrues interest on unrecognized tax benefits as a component of income tax expense. Penalties, if incurred, would be recognized as a component of income tax expense. The Company had no such accrued interest or penalties included in the accrued liabilities associated with unrecognized tax benefits as of the date of adoption.

**NOTE 10 EARNINGS PER SHARE**

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted-average number of shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding, after giving effect to all dilutive potential common shares outstanding during the period.

Basic and diluted earnings (loss) per share was calculated as follows (in thousands, except per share amounts):

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Net income (loss)	\$ (526)	\$ (2,980)
Weighted average shares outstanding:		
Basic	28,360,875	27,899,963
Effect of dilutive potential common shares:		
Restricted stock units and non-vested shares		
Contingently issuable shares		
Diluted	28,360,875	27,899,963
Basic earnings (loss) per share	\$ (0.02)	\$ (0.11)
Dilute earnings (loss) per share	\$ (0.02)	\$ (0.11)

**NOTE 11 COMMITMENTS AND CONTINGENCIES****Legal Matters**

The Company is subject to certain legal and other claims that arise in the ordinary course of its business. The Company does not believe that the results of these claims are likely to have a material effect on its consolidated financial position or results of operations.

**NOTE 12 SHARE BASED PAYMENTS**

The Company's share based payment awards principally consist of grants of restricted stock and restricted stock units. Share based payment awards also includes grants of membership interests in the Company's majority owned subsidiaries. The grants of membership interests consist of percentage interests in the Company's majority owned subsidiaries as determined at the date of grant. In accordance with the applicable accounting guidance, share based payment awards are classified as either equity or liabilities. For equity-classified awards, the Company measures compensation cost for the grant of membership interests at fair value on the date of grant and recognizes compensation expense in the condensed consolidated statement of operations over the requisite service or performance period the award is expected to vest. The fair value of

## Edgar Filing: Great American Group, Inc. - Form 10-Q

the liability-classified award will be subsequently remeasured at each reporting date through the settlement date. Change in fair value during the requisite service period will be recognized as compensation cost over that period.

### *(a) Grant of Membership Interests in Limited Liability Company Subsidiaries*

The limited liability company operating agreement of GAAV was amended on January 1, 2008 to admit two additional members. Both such members were granted a 3% interest in the members' equity of GAAV. The aggregate value of the grant of the membership interests totaled \$1,440. The membership interests vest one-third on January 1, 2008, the date of grant, and one-third on January 1, 2010 and the remaining one-third on January 1, 2011. The membership interests were issued as employee share based payment awards that are being recognized over the requisite service periods. Share based compensation of \$40 for

**Table of Contents****GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in thousands, except share data)**

the three months ended March 31, 2010 is included in selling, general and administrative expense in the accompanying condensed consolidated statement of operations.

The Company determined the fair value of the share based payment awards described above based on issuances of similar member interests for cash and references to industry comparables. The Company also relied, in part, on information obtained from appraisal reports prepared by outside specialists.

**(b) Restricted Stock Awards**

In connection with the Acquisition, the Company granted 1,440,000 shares of non-vested common stock to the Phantom Equityholders. These shares are issuable in accordance with the following vesting schedule: 50% on January 31, 2010, 25% on July 31, 2010 and the remaining 25% on January 31, 2011. Share based compensation for the non-vested stock awards of \$296 and \$1,183 for the three months ended March 31, 2011 and 2010, respectively, is included in selling, general and administrative expense in the accompanying condensed consolidated statement of operations. Of the 360,000 shares of common stock that vested in accordance with the vesting schedule on January 31, 2011, 182,758 shares of common stock of the Company were issued to the Phantom Equityholders and 177,242 shares were forfeited by the Phantom Equityholders to pay for employment withholding taxes. An additional 108,000 shares issuable to the Phantom Equityholders in the Acquisition were reserved to satisfy certain escrow claims in connection with the Acquisition, and have been released from escrow effective April 30, 2011 pursuant to the terms of the escrow agreement.

The Company's non-vested stock activity for the three months ended March 31, 2011 is summarized in the following table:

	Shares	Weighted Average Fair Value Per Share
Outstanding at December 31, 2010	360,000	\$ 4.93
Granted		\$
Vested	(360,000)	\$ 4.93
Forfeited/Cancelled		\$
Outstanding at March 31, 2011		\$

**(c) Restricted Stock Unit Activity**

On July 15, 2010 and August 25, 2009, each of the non-employee directors then serving on the Company's Board of Directors was awarded 40,000 and 10,142 restricted stock units with a grant date fair value of \$1.25 and \$4.93, respectively, in connection with their annual grant. In addition, on August 25, 2009, each of the non-employee directors then serving on the Company's Board of Directors was awarded an initial grant of 8,113 restricted stock units with a grant date fair value of \$4.93 per share. Such restricted stock units are subject to a one-year vesting period that commenced on July 31, 2009 for the restricted stock units granted in 2009 and July 15, 2010 for the restricted stock units granted in 2010. The total number of restricted stock units granted in 2010 was 200,000 and in 2009 was 91,275, for a total value of \$250 and \$450, respectively. The restricted stock units granted in 2009 were 100% vested at December 31, 2010. Share based compensation for the restricted stock units was \$63 and \$135 for the three months ended March 31, 2011 and 2010, respectively, and is included in selling, general and administrative expense in the accompanying condensed consolidated statement of operations.

At March 31, 2011, there were 200,000 non-vested restricted stock units and \$72 of unrecognized share based compensation expense related to these restricted stock units, which will be recognized over the remaining vesting period of 0.3 years.



**Table of Contents**

**GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except share data)**

**NOTE 13 RELATED PARTY TRANSACTIONS**

On January 4, 2010, the Company loaned \$2,706 to GAHA Fund I, a wholly-owned subsidiary of GARE. GAHA Fund I was created to purchase land and a commercial building that was sold by GAHA Fund I in January 2011. The note receivable is collateralized by the land and commercial building which was purchased with the proceeds from the loan. The note receivable bears interest at a rate of 10% per annum. The principal balance on the note and all unpaid interest was paid by GAHA Fund I in January 2011. Interest income was \$10 and \$67 for the three months ended March 31, 2011 and 2010, respectively, and is included in interest income in the accompanying condensed consolidated statement of operations. At December 31, 2010, the note receivable in the amount of \$2,706 is included in note receivable related party in the accompanying consolidated balance sheet and accrued interest receivable in the amount of \$268 is included in prepaid expenses and other current assets in the accompanying consolidated balance sheet.

On July 8, 2010, the Company loaned \$3,224 to GARE for the purposes of investing in GAHA Fund II, LLC, a newly formed joint venture which is 50% owned by GARE. GAHA Fund II, LLC is a special purpose entity created to purchase non-performing distressed real estate loans at a discount to par from a financial institution and market the loans and real estate to third parties. The note receivable bears interest at a rate of 15% per annum and all unpaid principal and interest is due on July 8, 2011. Interest income was \$120 for the three months ended March 31, 2011 and is included in interest income in the accompanying condensed consolidated statement of operations. At March 31, 2011 and December 31, 2010, the note receivable in the amount of \$3,224 and accrued interest receivable in the amount of \$353 and \$233 is included in prepaid expenses and other current assets in the accompanying condensed consolidated balance sheets.

In accordance with the accounting guidance for consolidation of variable interest entities, the Company has determined that the subordinated financing arrangements in the form of notes receivable described above with GARE changes the status of the entities to VIE. The Company, in determining whether or not it is the primary beneficiary of GARE, considered the disproportionate capital contributions that are currently made by the Company, the voting interests of the members of GARE and each member's ability to direct the activities of GARE. The Company determined it is not the primary beneficiary of the VIE since decisions to direct the operations of GARE are done jointly by the members of GARE and the Company does not have a disproportionate voting interest which allows it to exercise any rights or powers that would enable the Company to direct the activities of GARE that most significantly impact GARE's economic performance. The accompanying consolidated financial statements do not consolidate GARE. The income (loss) from GARE is accounted for under the equity method of accounting and is included in other income (loss) in the amount \$68 and \$(412) in the consolidated statements of operations for the three months ended March 31, 2011 and 2010, respectively. At March 31, 2011, the maximum amount of loss exposure related to these VIEs is equal to the carrying value of the respective notes receivable related party and accrued interest receivable described above.

**NOTE 14 BUSINESS SEGMENTS**

The Company's operating segments reflect the manner in which the business is managed and how the Company allocates resources and assesses performance internally. The Company's chief operating decision maker is a committee comprised of the Chief Executive Officer, Vice Chairman and President, and Chief Financial Officer. The Company has several operating subsidiaries through which it delivers specific services. The Company provides auction, liquidation, capital advisory, and other services to stressed or distressed companies in a variety of diverse industries that have included apparel, furniture, jewelry, real estate, and industrial machinery. The Company also provides appraisal and valuation services for retail and manufacturing companies. The Company's business is classified by management into two reportable segments: Auction and Liquidation and Valuation and Appraisal. These reportable segments are two distinct businesses, each with a different customer base, marketing strategy and management structure. The Valuation and Appraisal reportable segment is an aggregation of the Company's valuation and appraisal operating segments, which are primarily organized based on the nature of services and legal structure.

Additionally, the Valuation and Appraisal operating segments are aggregated into one reportable segment as they have similar economic characteristics and are expected to have similar long-term financial performance.



**Table of Contents****GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Dollars in thousands, except share data)

The following is a summary of certain financial data for each of the Company's reportable segments:

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Auction and Liquidation reportable segment:</b>		
Revenues - Services and fees	\$ 7,824	\$ 5,363
Revenues - Sale of goods	813	1,437
<b>Total revenues</b>	<b>8,637</b>	<b>6,800</b>
Direct cost of services	(2,709)	(2,954)
Cost of goods sold	(908)	(1,544)
Selling, general, and administrative expenses	(2,678)	(1,661)
Depreciation and amortization	(39)	(22)
<b>Segment income</b>	<b>2,303</b>	<b>619</b>
<b>Valuation and Appraisal reportable segment:</b>		
Revenues	5,179	5,267
Direct cost of revenues	(2,103)	(2,250)
Selling, general, and administrative expenses	(1,845)	(2,339)
Depreciation and amortization	(37)	(47)
<b>Segment income</b>	<b>1,194</b>	<b>631</b>
Consolidated operating income from reportable segments	3,497	1,250
Corporate and other expenses	(3,192)	(4,447)
Interest income	137	90
Other income (expense)	64	(412)
Interest expense	(328)	(1,033)
<b>Income (loss) before benefit for income taxes</b>	<b>178</b>	<b>(4,552)</b>
Benefit for income taxes	(704)	1,572
<b>Net income (loss)</b>	<b>\$ (526)</b>	<b>\$ (2,980)</b>
<b>Capital expenditures:</b>		
Auction and Liquidation segment	39	92
Valuation and Appraisal segment		24
<b>Total</b>	<b>\$ 39</b>	<b>\$ 116</b>

As of  
March 31,                      As of  
December 31,

Edgar Filing: Great American Group, Inc. - Form 10-Q

	2011	2010
Total assets:		
Auction and Liquidation segment	\$ 65,191	\$ 66,846
Valuation and Appraisal segment	5,891	5,428
Total	\$ 71,082	\$ 72,274

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

*This report contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expect, plan, anticipate, believe, estimate, predict, potential or continue, the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we, nor any other person, assume responsibility for the accuracy and completeness of the forward-looking statements. We are under no obligation to update any of the forward-looking statements after the filing of this Quarterly Report to conform such statements to actual results or to changes in our expectations. The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes and other financial information appearing elsewhere in this Quarterly Report. Readers are also urged to carefully review and consider the various disclosures made by us which attempt to advise interested parties of the factors which affect our business, including without limitation the disclosures made in Item 1A of Part II of this Quarterly Report under the caption Risk Factors .*

*Risk factors that could cause actual results to differ from those contained in the forward-looking statements include but are not limited to risks related to: volatility in our revenues and results of operations; our ability to generate sufficient revenues to achieve and maintain profitability; our substantial level of indebtedness; the accuracy of our estimates and valuations of inventory or assets in guarantee based engagements; potential losses related to our auction or liquidation engagements; potential losses related to purchase transactions in our auction and liquidations business; the potential loss of financial institution clients; changing economic and market conditions; potential liability and harm to our reputation if we were to provide an inaccurate appraisal or valuation; potential mark-downs in inventory in connection with purchase transactions; failure to successfully compete; loss of key personnel; the international expansion of our business; our ability to borrow under our credit facilities as necessary; failure to comply with the terms of our credit agreement; and our ability to meet future capital requirements.*

*Except as otherwise required by the context, references in this Quarterly Report to:*

*Great American, the Company, we, us or our refer to the combined business of Great American Group, Inc. and all of its subsidiaries after giving effect to (i) the contribution to Great American Group, Inc. of all of the membership interests of Great American Group, LLC by the members of Great American, which transaction is referred to herein as the Contribution , and (ii) the merger of Alternative Asset Management Acquisition Corp. with and into its wholly-owned subsidiary, AAMAC Merger Sub, Inc., referred to herein as Merger Sub , in each case, which occurred on July 31, 2009, referred to herein as the Merger . The Contribution and Merger are referred to herein collectively as the Acquisition ;*

*GAG, Inc. refers to Great American Group, Inc.;*

*GAG, LLC refers to Great American Group, LLC;*

*the Great American Members refers to the members of Great American Group, LLC prior to the Acquisition;*

*Phantom Equityholders refers to certain members of senior management of Great American Group, LLC prior to the Acquisition that were participants in a deferred compensation plan; and*

*AAMAC refers to Alternative Asset Management Acquisition Corp.*

**Overview**

We are a leading provider of asset disposition and valuation and appraisal services to a wide range of retail, wholesale and industrial clients, as well as lenders, capital providers, private equity investors and professional service firms. We operate our business in two segments: auction and liquidation solutions and valuation and appraisal services. Our auction and liquidation segment seeks to assist clients in maximizing return and recovery rates through the efficient disposition of assets. Such assets include multi-location retail inventory, wholesale inventory, trade fixtures, machinery and equipment, intellectual property and real property. Our valuation and appraisal services segment provides our clients with

## Edgar Filing: Great American Group, Inc. - Form 10-Q

independent appraisals in connection with asset-based loans, acquisitions, divestitures and other business needs. These services are provided to a wide range of retail, wholesale and industrial companies, as well as lenders, capital providers, private equity investors and professional service firms throughout the United States and Canada and more recently in the United Kingdom as a result of the expansion of our retail liquidation services in Europe in April 2009.

Our significant industry experience and network of highly skilled employees and independent contractors allow us to tailor our auction and liquidation solutions to the specific needs of a multitude of clients, logistical challenges and distressed circumstances. We have established appraisal and valuation methodologies and practices in a broad array of asset categories which have made us a recognized industry leader. Furthermore, our scale and pool of resources allow us to offer our services on a nationwide basis.

---

## **Table of Contents**

Together with our predecessors, we have been in business since 1973. For over 35 years, we and our predecessors have provided retail, wholesale and industrial auction and liquidation solutions to clients. Past clients include Boeing, Apple Computers, Borders Group, Circuit City, Friedman's Jewelers, Hechinger, Mervyns, Tower Records, Eaton's, Hancock Fabrics, Movie Gallery, Linens N Things, Kmart, Sears, Montgomery Ward, Whitehall Jewelers, Gottschalks, Fortunoff, and Ritz Camera. Since 1995, we have participated in liquidations involving over \$23 billion in aggregate asset value and auctioned assets with an estimated aggregate value of over \$6 billion.

Our valuation and appraisal services division provides valuation and appraisal services to financial institutions, lenders, private equity investors and other providers of capital. These services primarily include the valuation of assets (i) for purposes of determining and monitoring the value of collateral securing financial transactions and loan arrangements and (ii) in connection with potential business combinations. Our clients include major financial institutions such as Bank of America, Credit Suisse, GE Capital, JPMorgan Chase, Union Bank of California, and Wells Fargo. Our clients also include private equity firms such as Apollo Management, Goldman Sachs Capital Partners, Laurus Funds, Sun Capital Partners and UBS Capital.

In April 2009, we expanded our operations into Europe by opening an office in the United Kingdom. We expect to provide services to help retailers downsize through inventory liquidation and store closures in addition to providing appraisal and valuation services. In 2010, we hired a number of key employees to increase our presence and expand the operations of our retail liquidations solutions business throughout Europe. During 2010, we generated approximately \$0.6 million of revenues from services and fees from appraisal and auction and liquidation services engagements in our European operations. During the quarter ended March 31, 2011, we generated approximately \$3.3 million in revenue from our European operations. These revenues were primarily generated from two retail liquidation engagements we conducted in the United Kingdom.

In October 2009, we formed GA Capital, LLC ( GA Capital ), a majority owned subsidiary of the Company. GA Capital focuses on services to retailers that are in need of junior secured loans for growth capital, working capital, and turnaround financing as part of our auction and liquidation segment. GA Capital advises borrowers and sources loans between \$10 million and \$100 million secured by collateral assets of the borrowers, including inventory, accounts receivable, real estate and intellectual property. During the quarter ended March 31, 2011, we generated approximately \$1.8 million in revenue from capital advisory services performed by our GA Capital operations.

In January 2011, the Keen Consultants' real estate team joined us and will operate as GA Keen Realty Advisors. This newly formed division will provide real estate analysis, valuation and strategic planning services, brokerage, mergers and acquisition, auction services, lease restructuring services, and real estate capital market services as part of our auction and liquidation segment. GA Keen Realty Advisors will continue to offer its services to traditional clients of Keen Consultants, including property owners, tenants, secured and unsecured creditors, attorneys, and financial advisors.

Historically, revenues from our auction and liquidation segment have comprised a significant amount of our total revenues and operating profits. During the years ended December 31, 2010 and 2009, revenues from our auction and liquidation segment were 49.9% and 73.9% of total revenues, respectively. During the three months ended March 31, 2011, revenues from our auction and liquidation segment were 62.5% of total revenues. Our total revenues in the auction and liquidation segment were \$8.6 million during the three months ended March 31, 2011 of which \$5.1 million, or 59.5% of this total, was generated from our activities in Europe and capital advisory services performed by GA Capital. Revenues we generate in the auction and liquidation segment vary significantly from quarter to quarter and have a significant impact on our operating results from period to period. Revenues from retail and liquidation engagements in the United States and wholesale and industrial auctions were \$3.5 million, or 25.3%, of total revenues during the three months ended March 31, 2011. The decrease in the percentage of revenues in the auction and liquidation segment in the United States is primarily due to fewer liquidation engagements as economic conditions for retailers and credit markets have improved from the prior years.

### **Critical Accounting Policies**

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ( GAAP ), which require management to make estimates and assumptions that affect reported amounts. The estimates and assumptions are based on historical experience and on other factors that management believes to be reasonable. Actual results may differ from those estimates. Critical accounting policies represent the areas where more significant judgments and estimates are used in the preparation of our consolidated financial statements. A discussion of such critical accounting policies, which include revenue recognition, allowance for doubtful accounts, goods held for sale or auction, goodwill and other intangible assets, share-based compensation and income taxes can be found in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. There have been no material changes to the policies noted above as of this quarterly report on Form 10-Q for the period ended March 31, 2011.



**Table of Contents****Results of Operations**

The following period to period comparisons of our financial results and our interim results are not necessarily indicative of future results.

**Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010****Condensed Consolidated Statements of Operations**

(dollars in thousands)

	Three Months Ended March 31, 2011		Three Months Ended March 31, 2010	
	Amount	%	Amount	%
<b>Revenues:</b>				
Services and fees	\$ 13,003	94.1%	\$ 10,630	88.1%
Sale of goods	813	5.9%	1,437	11.9%
<b>Total revenues</b>	<b>13,816</b>	<b>100.0%</b>	<b>12,067</b>	<b>100.0%</b>
<b>Operating expenses:</b>				
Direct cost of services	4,812	34.8%	5,204	43.1%
Cost of goods sold	908	6.6%	1,544	12.8%
Selling, general and administrative expenses	7,791	56.4%	8,516	70.6%
<b>Total operating expenses</b>	<b>13,511</b>	<b>97.8%</b>	<b>15,264</b>	<b>126.5%</b>
<b>Operating income (loss)</b>	<b>305</b>	<b>2.2%</b>	<b>(3,197)</b>	<b>-26.5%</b>
<b>Other income (expense):</b>				
Other expense	(4)	0.0%		0.0%
Interest income	137	1.0%	90	0.7%
Income (loss) from equity investment in Great American Real Estate, LLC	68	0.5%	(412)	-3.4%
Interest expense	(328)	-2.4%	(1,033)	-8.6%
<b>Income (loss) from operations before income taxes</b>	<b>178</b>	<b>1.3%</b>	<b>(4,552)</b>	<b>-37.7%</b>
<b>(Provision) benefit for income taxes</b>	<b>(704)</b>	<b>-5.1%</b>	<b>1,572</b>	<b>13.0%</b>
<b>Net loss</b>	<b>\$ (526)</b>	<b>-3.8%</b>	<b>\$ (2,980)</b>	<b>-24.7%</b>

**Revenues.** Total revenues increased \$1.7 million, or 14.5%, to \$13.8 million during the three months ended March 31, 2011 from \$12.1 million during the three months ended March 31, 2010. The increase in revenues during the three months ended March 31, 2011 was primarily due to an increase in revenues in the auction and liquidation segment of \$1.8 million offset by a decrease in revenues in the valuation and appraisal services segment of \$0.1 million as compared to the same period in 2010. The increase in revenues in the auction and liquidation segment in 2011 was primarily due an increase in revenues from capital advisory services in the amount of \$1.4 million, an increase in revenues of \$1.0 million from retail liquidation engagements and the auction of machinery and equipment offset by a decrease in revenues from gross sales of goods where we held title of \$0.6 million. The decrease in revenues of \$0.1 million in the valuation and appraisal services segment was primarily due to a decrease in revenues related to appraisals we perform for the monitoring of collateral for financial institutions, lenders, and private equity investors.

**Table of Contents****Revenue and Gross Margin by Segment**

(dollars in thousands)

**Auction and Liquidation Segment:**

	Three Months Ended March 31, 2011		Three Months Ended March 31, 2010	
	Amount	%	Amount	%
<b>Revenues:</b>				
Services and fees	\$ 7,824	90.6%	\$ 5,363	78.9%
Sale of goods	813	9.4%	1,437	21.1%
Total revenues	8,637	100.0%	6,800	100.0%
Direct cost of services	2,709	31.4%	2,954	43.4%
Cost of goods sold	908	10.5%	1,544	22.7%
Total operating expenses	3,617	41.9%	4,498	66.1%
Gross margin	\$ 5,020	58.1%	\$ 2,302	33.9%
Gross margin services and fees	65.4%		44.9%	
Gross margin sales of goods	-11.7%		-7.4%	

Revenues in the auction and liquidation segment increased \$1.8 million, or 27.0%, to \$8.6 million during the three months ended March 31, 2011 from \$6.8 million during the three months ended March 31, 2010. Revenues from services and fees increased to \$7.8 million during the three months ended March 31, 2011, an increase of \$2.4 million, or 45.9%, from \$5.4 million during the three months ended March 31, 2010. The increase in revenues from services and fees was primarily due to an increase in revenues of \$1.4 million from capital advisory services and an increase in revenues from retail liquidation engagements in the United Kingdom of \$3.3 million from our European expansion efforts, offset by a decrease in revenues of \$2.9 million from retail liquidation engagements and the auction of machinery and equipment in the United States. The decrease in revenues from retail liquidation engagements in the United States was primarily due to a decrease in retail liquidation engagements where we provide a minimum recovery value for goods sold and consumer product retailers conducting bankruptcy liquidation sales. Revenues from gross sales of goods where we held title to the goods decreased to \$0.8 million during the three months ended March 31, 2011 from \$1.4 million during the three months ended March 31, 2010. The decrease in gross revenues from the sales of goods where we held title to the goods was primarily due the sale of goods with lower asset values in 2011 as compared to 2010.

Gross margin in the auction and liquidation segment increased to 58.1% of revenues during the three months ended March 31, 2011, as compared to 33.9% of revenues during the three months ended March 31, 2010. The increase in the gross margin during the three months ended March 31, 2011 was primarily due to an increase in revenues from capital advisory services and retail liquidation engagements we performed in the United Kingdom.

Gross margin from the sales of goods where we held title decreased to (11.7%) during the three months ended March 31, 2011 as compared to a gross margin of (7.4%) during the three months ended March 31, 2010. The gross margin was unfavorably impacted by liquidation sales of certain equipment with lower profit margins in 2011 as compared to the same period in 2010.

**Valuation and Appraisal Segment:**

	Three Months Ended March 31, 2011		Three Months Ended March 31, 2010	
	Amount	%	Amount	%
Revenues - Services and fees	\$ 5,179	100.0%	\$ 5,267	100.0%

Edgar Filing: Great American Group, Inc. - Form 10-Q

Direct cost of services	2,103	40.6%	2,250	42.7%
Gross margin	\$ 3,076	59.4%	\$ 3,017	57.3%

**Table of Contents**

Revenues in the valuation and appraisal segment decreased \$0.1 million, or 1.7%, to \$5.2 million during the three months ended March 31, 2011 from \$5.3 million during the three months ended March 31, 2010. The decrease in revenues was primarily due to a decrease in revenues related to appraisals we perform for the monitoring of collateral for financial institutions, lenders, and private equity investors.

Gross margins in the valuation and appraisal segment increased to 59.4% of revenues during the three months ended March 31, 2011 as compared to 57.3% of revenues during the three months ended March 31, 2010. Gross margins in 2011 were favorably impacted by the cost reduction measures that were implemented in October 2010 which resulted in a decrease in headcount and travel and entertainment related expenses in the valuation and appraisal segment as compared to 2010.

**Operating Expenses**

**Direct Costs of Services.** Total direct costs of services decreased \$0.4 million, or 7.5%, to \$4.8 million during the three months ended March 31, 2011 from \$5.2 million during the three months ended March 31, 2010. Direct costs of services in the auction and liquidation segment decreased \$0.3 million, or 8.3%, to \$2.7 million during the three months ended March 31, 2011 from \$3.0 million during the three months ended March 31, 2010. The decrease in expenses was primarily due to a decrease in the number of fee and commission type engagements where we contractually bill fees, commissions and reimbursable expenses as compared to the same period in 2010. Direct costs of services in the valuation and appraisal services segment decreased \$0.1 million, or 6.5%, to \$2.1 million during the three months ended March 31, 2011. The decrease was primarily due to cost reduction measures that were implemented in October 2010 which resulted in a decrease in headcount in the valuation and appraisal segment in 2011 as compared to the same period in 2010.

**Cost of Goods Sold.** Cost of goods sold decreased \$0.6 million to \$0.9 million during the three months ended March 31, 2011 from \$1.5 million during the three months ended March 31, 2010. As a percentage of gross sales of goods where we hold title to the goods, costs of goods sold was 111.7% during the three months ended March 31, 2011 as compared to 107.4% during the three months ended March 31, 2010. The increase in cost of goods sold as a percentage of gross sales of goods was primarily the result of the sale of goods with lower asset values and gross margins in the three months ended March 31, 2011 as compared to the same period in 2010.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses during the three months ended March 31, 2011 and 2010 were comprised of the following:

**Selling, General and Administrative Expenses by Segment**

	Three months ended March 31, 2011		Three months ended March 31, 2010		Change	
	Amount	%	Amount	%	Amount	%
Auction and liquidation	\$ 2,717	34.8%	\$ 1,683	19.8%	\$ 1,034	61.4%
Valuation and appraisal	1,882	24.2%	2,386	28.0%	(504)	-21.1%
Corporate and other	3,192	41.0%	4,447	52.2%	(1,255)	-28.2%
Total selling, general & administrative expenses	\$ 7,791	100.0%	\$ 8,516	100.0%	\$ (725)	-8.5%

Total selling, general and administrative expenses decreased \$0.7 million, or 8.5%, to \$7.8 million during the three months ended March 31, 2011 from \$8.5 million for the three months ended March 31, 2010. The decrease in selling, general and administrative expenses was primarily due to a decrease in corporate and other and selling, general and administrative expenses in the valuation and appraisal segment offset by an increase in selling, general and administrative expenses in the auction and liquidation segment. Selling, general and administrative expenses in the auction and liquidation segment increased \$1.0 million, or 61.4%, to \$2.7 million during the three months ended March 31, 2011 from \$1.7 million for the three months ended March 31, 2010. The increase was primarily due to an increase in payroll and operating expenses from our GA Keen Realty Advisors division, which was formed in January 2011, and the continued expansion of our European operations during the three months ended March 31, 2011 as compared to the same period in 2010.

Selling, general and administrative expenses in the valuation and appraisal services segment decreased \$0.5 million, or 21.1%, to \$1.9 million during the three months ended March 31, 2011 from \$2.4 million for the three months ended March 31, 2010. The decrease was primarily due to a decrease in headcount and a decrease in professional fees paid to outside consultants in 2011 as compared to 2010. Selling, general and administrative expenses for corporate and other decreased \$1.3 million, or 28.2%, to \$3.2 million during the three months ended March 31, 2011 from \$4.5 million for the three months ended March 31, 2010. This decrease



---

**Table of Contents**

was primarily due to a decrease of \$0.9 million in share based compensation expense related to consideration paid to the Phantom Equityholders in connection with the Acquisition on July 31, 2009 and \$0.4 million payroll and related expenses as a result of the cost reduction measures implemented in October 2010, which included a voluntary salary reduction to the base salaries of the executive officers and members of senior management ranging from 10% to 40%.

**Other Income (Expense).** Other income was \$0.2 million during the three months ended March 31, 2011 as compared to other expense of \$0.3 million during the three months ended March 31, 2010. The increase in other income is primarily due to income from our 50% share of income generated from the operations of Great American Real Estate, LLC ( GARE ), a joint venture with Kelly Capital, which totaled \$0.1 million during the three months ended March 31, 2011 as compared to the loss of \$0.4 million during the three months ended March 31, 2010. Interest income totaled \$0.1 million during each of the three month periods ended March 31, 2011 and 2010.

**Interest Expense.** Interest expense decreased to \$0.3 million during the three months ended March 31, 2011 from \$1.0 million during the three months ended March 31, 2010. The decrease in interest expense in the three months ended March 31, 2011 was primarily due to a decrease in interest expense of \$0.4 million on the notes payable to the Great American Members and Phantom Equityholders as a result of the reduction in the interest rate on certain promissory notes in May 2010 and the reversal of interest expense of \$0.3 million that was accrued during the period from the date of the expiration of the First Amendment To Credit Agreement on November 18, 2010 to December 31, 2010. The reversal of interest expense of \$0.3 million during three months ended March 31, 2011 is the result of the execution of the Second Amendment to Credit Agreement that is collateralized by machinery and equipment as more fully described in Note 8 to the accompanying condensed consolidated financial statements.

**Income (Loss) from Operations Before Income Taxes.** Income from operations before income taxes was \$0.2 million during the three months ended March 31, 2011 as compared to a loss from operations before income taxes of \$4.6 million during the three months ended March 31, 2010. The decrease in the loss from operations before income taxes during the period was primarily due to the increase in revenues and profits earned in the auction and liquidation segment and reductions in selling, general and administrative expenses from the cost reduction measures that were implemented in October 2010 and a decrease in interest expense as more fully described above.

**Net Loss.** Net loss for the three months ended March 31, 2011 was \$0.5 million, a decrease of \$2.5 million, from a net loss of \$3.0 million during the three months ended March 31, 2010. The decrease in net loss during the three months ended March 31, 2011 was primarily due to the increase in revenues and profits earned in the auction and liquidation segment and reduction in selling, general and administrative expenses from the cost reduction measures that were implemented in October 2010 and a decrease in interest expense as more fully described above.

**Liquidity and Capital Resources**

Our operations have been funded through a combination of operating profits generated from operations and more recently from proceeds received from AAMAC in connection with the Acquisition, which was completed on July 31, 2009. During the three months ended March 31, 2011 and year ended December 31, 2010, the profits generated by our auction and liquidation segment have been negatively impacted by fewer retail liquidation engagements conducted by us. As economic conditions and credit markets have improved for retailers, the number of large retail liquidation engagements in the auction and liquidation industry has decreased from historical levels. These factors, in addition to the interest expense on the \$53.9 million of subordinated, unsecured promissory notes payable to the Great American Members and Phantom Equityholders, have resulted in the net use of \$0.2 million of cash from operations during the three months ended March 31, 2011 and \$5.4 million of cash from operations during the year ended December 31, 2010.

On May 4, 2010, we entered into individual amendments (each, an Amendment and collectively, the Amendments ) to an aggregate of \$52.4 million of the \$55.6 million principal amount outstanding of the subordinated, unsecured promissory notes payable to the Great American Members and Phantom Equityholders in connection with the Acquisition and the interest rate was reduced from 12.0% per annum to 3.75% per annum. In addition, the maturity date for \$47.0 million of the \$55.6 million principal amount outstanding of the subordinated, unsecured promissory notes payable to the Great American Members was extended to July 31, 2018, subject to annual prepayments based upon our cash flow, provided that we are not obligated to make such prepayments if our minimum adjusted cash balance is below \$20.0 million. We were not obligated to make prepayments under the notes for the fiscal year ended December 31, 2010. The terms of these Amendments significantly reduce the annual cash required to service this debt. In addition, on October 27, 2010, we entered into individual waivers for an aggregate of \$51.3 million of the \$53.9 million principal amount outstanding of the subordinated, unsecured promissory notes payable to the Great American Members and Phantom Equityholders, whereby the noteholders agreed to permit us to defer the payment of interest payments due on each of October 31, 2010, January 31, 2011, and April 30, 2011 until July 31, 2011. As a result, on July 31, 2011 we will be obligated to pay a total of \$2.1 million in interest to the Phantom Equityholders and each of the Great American Members entering into such waivers. The interest owed on the promissory notes entered into by the Phantom Equityholders not entering into such waivers continues to accrue at



**Table of Contents**

an interest rate of 12.0% per annum and is paid out on a quarterly basis when due. As of March 31, 2011, we had accrued interest payable in connection with the promissory notes in the amount of \$1.3 million.

In addition to amending the subordinated, unsecured promissory notes payable to the Great American Members and Phantom Equityholders, we implemented cost reduction measures in September 2010 that have resulted in a reduction in employee headcount of approximately 7%, a voluntary reduction in base salaries of senior executives that ranged from 10% to 40%, and other cost savings measures which we expect to result in an aggregate total of approximately \$2.2 million in cost savings on an annual basis.

As of March 31, 2011, we had \$21.9 million in unrestricted cash and no borrowings outstanding under our asset based credit facility. We believe that our current cash and cash equivalents, funds available under our asset based credit facility and cash expected to be generated from operating activities will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months. We continue to monitor our financial performance to ensure sufficient liquidity to fund operations and service interest and principal payments due on our long term debt.

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Net cash provided by (used in):</b>		
Operating activities	\$ (162)	\$ (5,938)
Investing activities	2,508	(2,513)
Financing activities	(526)	(1,241)
Effect of foreign currency on cash	2	
 Net increase (decrease) in cash and cash equivalents	 \$ 1,822	 \$ (9,692)

Cash used in operating activities was \$0.2 million for the three months ended March 31, 2011 compared to cash used in operating activities of \$5.9 million in the same period in 2010. The decrease in cash used in operating activities in 2011 was primarily due to an increase in revenues and income from operations in the auction and liquidation segment and reductions in selling, general and administrative expenses from the cost reduction measures that were implemented in October 2010 and a decrease in interest expense. Net cash provided by investing activities was \$2.5 million for the three months ended March 31, 2011 compared to cash provided by investing activities of \$2.5 million during the three months ended March 31, 2010. The increase in net cash provided by investing activities in 2011 was primarily due to payment of the principal balance of the note payable related party in the amount of \$2.7 million offset by a use of cash of \$0.2 million due to an increase in restricted cash and purchase of property and equipment. Cash used in financing activities was \$0.5 million for the three months ended March 31, 2011 compared to cash used in financing activities of \$1.2 million during the three months ended March 31, 2010. Cash used in financing activities in 2011 consisted of \$0.1 million used for the payment of employment taxes on the vesting of restricted stock that was awarded to the Phantom Equityholders in connection with the Acquisition and \$0.4 million of distributions to noncontrolling interests.

*Credit Agreements*

From time to time, we utilize our asset based credit facility to fund costs and expenses incurred in connection with liquidation engagements. We also utilize this credit facility in order to issue letters of credit in connection with liquidation engagements conducted on a guaranteed basis. We are permitted to borrow up to \$100.0 million under the credit facility; however, borrowings under the credit facility are only made at the discretion of the lender. The base rate for the credit facility is the greater of (i) the Wells Fargo prime rate, (ii) LIBOR plus 1.00% and (iii) the Federal Funds Effective Rate plus 0.50%. The credit facility is secured by the proceeds received for services rendered in connection with the liquidation service contracts pursuant to which any outstanding loan or letters of credit are issued and the assets that are sold at liquidation related to such contract, if any. The credit facility also provides for success fees in the amount of 5% to 20% of the profits earned on the liquidation contract, if any. We typically seek borrowings on an engagement-by- engagement basis. The credit facility expires in July 2013; however, borrowings under the credit facility are generally required to be repaid within 180 days. At March 31, 2011 and December 31, 2010, there was no outstanding balance under the credit facility for borrowing or outstanding letters of credit. As of March 31, 2011, we were in compliance with all covenants under the credit facility.

## **Table of Contents**

On May 29, 2008, Great American Group Energy Equipment, LLC ( GAGEE ) entered into a credit agreement to finance the purchase of oil rigs and other equipment related to the oil exploration business to be sold at auction or liquidation. The principal amount of the loan was \$12.0 million and the initial interest rate was 20% per annum. The loan is collateralized by the oil rigs and other equipment related to the oil exploration business that were purchased with the proceeds from the loan. GAGEE is required to make principal and interest payments from proceeds from the sale of the oil rigs and other equipment related to the oil exploration business. GAGEE is a special purpose entity created to purchase the oil rigs and other equipment related to the oil exploration business, whose assets consist only of the oil rigs and other equipment related to the oil exploration business in question and whose liabilities are limited to the lenders' note and certain operational expenses related to this transaction. GAGEE entered into a forbearance agreement with the lenders and administrative agent effective September 27, 2009 and an amendment to the credit agreement effective December 18, 2009. Pursuant to the terms of the amendment, the interest rate was reduced from 20% to 0% and the lender agreed to reimburse GAGEE for certain expenses from proceeds of the sale of assets that collateralize the amended credit agreement. The forbearance agreement expired on November 18, 2010. The Company and GAGEE entered into the Second Amendment to Credit Agreement on May 9, 2011, which extends the maturity date of the note payable to November 19, 2011 with an interest rate of 0% through maturity. The Second Amendment to Credit Agreement also provides for the lender to reimburse GAGEE for certain expenses from proceeds of the sale or lease of the assets that collateralize the note payable GAG, LLC guaranteed GAGEE's liabilities to the lenders up to a maximum of \$1.2 million. GAG, LLC made a payment of \$1.2 million on October 9, 2009 in full satisfaction of its guaranty under the credit agreement, which reduced the principal amount of borrowings and interest due under the credit agreement. The credit agreement does not provide for other recourse against us, GAG, LLC or any of our other subsidiaries. At March 31, 2011, the aggregate principal balance of the note payable by GAGEE was \$11.7 million.

One of our majority owned subsidiaries utilizes a factoring agreement to provide working capital to finance the operations within the valuation and appraisal segment. The factoring agreement is scheduled to expire on May 22, 2011. We are currently in discussions to obtain a new factoring arrangement. The factoring agreement provides for the factor, at its discretion, to purchase on a nonrecourse basis, all of our subsidiary's customer receivables. The factor is responsible for servicing the receivables and pays 90% of the net receivable invoice amount upon request by our subsidiary and retains the remaining 10% in a reserve. Accounts receivable sold to the factor were \$3.5 million during each of the three month periods ended March 31, 2011 and 2010.

### **Off Balance Sheet Arrangements**

On January 4, 2010, we loaned \$2.7 million to GAHA Fund I, a wholly-owned subsidiary of Great American Real Estate, LLC ( GARE ) which is a joint venture 50% owned by us and 50% owned by Kelly Capital, LLC. GAHA Fund I was created to purchase land and a commercial building that was sold by GAHA Fund I in January 2011. The note receivable is collateralized by the land and commercial building which was purchased with the proceeds from the loan. The note receivable bore interest at a rate of 10% per annum. The principal balance on the note and all unpaid interest was paid by GAHA Fund I in January 2011.

On July 8, 2010, we loaned \$3.2 million to GARE for the purposes of investing in GAHA Fund II, LLC, a joint venture which is 50% owned by GARE. GAHA Fund II, LLC is a special purpose entity created to purchase non-performing distressed real estate loans at a discount to par from a financial institution and market the loans and real estate to third parties. The note receivable bears interest at a rate of 15% per annum and all unpaid principal and interest is due on July 8, 2011. Interest income was \$0.1 million for the three months ended March 31, 2011. At March 31, 2011, accrued interest receivable on the note receivable was \$0.4 million.

Other than with respect to our arrangements with GAHA Fund I, GAHA Fund II and GARE, as further described in Note 13 Related Party Transactions to our condensed consolidated financial statements, we have no obligations, assets or liabilities which would be considered off-balance sheet arrangements and do not participate in transactions that create relationships with unconsolidated entities or financial partnerships, often referred to as variable interest entities, established for the purpose of facilitating off-balance sheet arrangements. We have not guaranteed any debt or commitments of other entities or entered into any options on non-financial assets.

### **New Accounting Standards**

See Note 2 Summary of Significant Accounting Policies to condensed consolidated financial statements for information regarding new accounting guidance.

**Table of Contents**

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

Not applicable.

**Item 4. Controls and Procedures.**

*(a) Evaluation of Disclosure Controls and Procedures*

We carried out an evaluation required by the Exchange Act, under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of our fiscal quarter ended March 31, 2011. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure. Based upon this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of March 31, 2011.

*(b) Changes in Internal Control over Financial Reporting*

There have been no material changes to our internal control over financial reporting during the fiscal quarter covered by this Quarterly Report 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.**

From time to time, we are involved in litigation arising out of our operations. We believe that we are not currently a party to any proceedings the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on our financial position or results of operations.

## **Table of Contents**

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

Given the nature of our operations and services we provide, a wide range of factors could materially affect our operations and profitability. Changes in competitive, market and economic conditions also affect our operations. The risks and uncertainties described below are not the only risks and uncertainties facing us. Additional risks and uncertainties not presently known or that are currently considered to be immaterial may also materially and adversely affect our business operations or stock price. If any of the following risks or uncertainties occurs, our business, financial condition or operating results could materially suffer.

#### ***Our revenues and results of operations are volatile and difficult to predict.***

Our revenues and results of operations fluctuate significantly from quarter to quarter, due to a number of factors. These factors include, but are not limited to, the following:

our ability to attract new clients and obtain additional business from our existing client base;

the number, size and timing of our engagements;

the extent to which we acquire assets for resale, or guarantee a minimum return thereon, and our ability to resell those assets at favorable prices;

variability in the mix of revenues from the auction and liquidation solutions business and the valuation and appraisal services business;

the rate of growth of new service areas, including the new home auction and real estate services divisions and international expansion;

the types of fees we charge clients, or other financial arrangements we enter into with clients; and

changes in general economic and market conditions.

We have limited or no control over some of the factors set forth above and, as a result, may be unable to forecast our revenues accurately. We rely on projections of revenues in developing our operating plans for the future and will base our expectations regarding expenses on these projections and plans. If we inaccurately forecast revenues and/or earnings, or fail to accurately project expenses, we may be unable to adjust our spending in a timely manner to compensate for these inaccuracies and, as a result, may suffer operating losses and such losses could have a negative impact on our financial condition and results of operations. If, for any reason, we fail to meet company, investor or analyst projections of revenue, growth or earnings, the market price of the common stock could decline and you may lose all or part of your investment.

#### ***We have experienced losses and may not maintain profitability.***

Although we have had profitable quarterly and annual periods, we incurred a net loss during the three months ended March 31, 2011 and year ended December 31, 2010. Our operations in 2011 and 2010 were negatively impacted by fewer liquidation engagements as economic conditions for retailers and credit markets improved from the prior years and a decline in revenues from the auction of machinery and equipment. In the past, we also incurred losses from discontinued operations relating to our former retail furniture liquidation solutions business. It is possible that we will continue to experience losses with respect to our current operations as we expand our operations through new business areas. In addition, we expect that our operating expenses will increase to the extent that we grow our business. We may not be able to generate sufficient revenues to maintain profitability.

***Our substantial level of indebtedness may make it difficult for us to satisfy our debt obligations and may adversely affect our ability to obtain financing for working capital, capitalize on business opportunities or respond to adverse changes in our industry.***

In connection with the consummation of the Acquisition on July 31, 2009, we issued subordinated unsecured promissory notes in the principal amount of \$55.6 million payable to the Great American Members and the Phantom Equityholders, which includes our Vice Chairman and CEO who own or control, in the aggregate, 10,560,000 shares of our common stock or 34.6% of our outstanding common stock as of December 31, 2010. As of December 31, 2010, an aggregate principal amount of \$53.9 million remains outstanding on the promissory notes. On May 3, 2010, we entered into individual amendments to an aggregate of \$52.4 million of the notes, which reduced the interest rate on the amended notes from 12.0% to 3.75% per annum, and further amended the \$47.0 million in notes held by the Great American Members to provide for the extension of the maturity date to July 31, 2018 (subject to annual prepayments based upon our cash flow, with certain limitations). On October 27, 2010, we entered into individual waivers related to \$51.3 million of the \$53.9 million in notes then outstanding, whereby the noteholders agreed to permit us to defer payment of the interest payments that would otherwise be due on each of October 31, 2010, January 31, 2011, and April 30, 2011 until July 31, 2011. However, despite these amendments to the promissory notes and the waivers of our obligation to make interest payments described above, we may not have sufficient funds available to make payments of interest or principal on the promissory notes in the future, and we may be unable to obtain further waivers or amendments from the noteholders. If we are required to make such payments, we may be required to use funds that would otherwise be required to operate our business, which could have a material impact on our business and financial results. As of March 31, 2011, we have accrued \$1.3 million in unpaid interest under the promissory notes. This indebtedness could have material consequences for our business, operations and liquidity position, including the following:

**Table of Contents**

it may be more difficult for us to satisfy our other debt obligations;

our ability to obtain additional financing for working capital, debt service requirements, general corporate or other purposes may be impaired;

a substantial portion of our cash flow will be used to pay interest and principal on our indebtedness, which will reduce the funds available for other purposes; and

our ability to refinance indebtedness may be limited.

***Because of their significant stock ownership, some of our existing stockholders will be able to exert control over us and our significant corporate decisions.***

Our executive officers, directors and their affiliates own or control, in the aggregate, approximately 40.8% of our outstanding common stock as of December 31, 2010. In particular, our Vice Chairman and CEO own or control, in the aggregate, 10,560,000 shares of our common stock or 34.4% of our outstanding common stock as of December 31, 2010. These stockholders are able to exercise influence over matters requiring stockholder approval, such as the election of directors and the approval of significant corporate transactions, including transactions involving an actual or potential change of control of the company or other transactions that non-controlling stockholders may not deem to be in their best interests. This concentration of ownership may harm the market price of our common stock by, among other things:

delaying, deferring, or preventing a change in control of our company;

impeding a merger, consolidation, takeover, or other business combination involving our company;

causing us to enter into transactions or agreements that are not in the best interests of all stockholders; or

discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our company.

***We may incur losses as a result of guarantee based engagements that we enter into in connection with our auction and liquidation solutions business.***

In many instances, in order to secure an engagement, we are required to bid for that engagement by guaranteeing to the client a minimum amount that such client will receive from the sale of inventory or assets. Our bid is based on a variety of factors, including: our experience, expertise, perceived value added by engagement, valuation of the inventory or assets and the prices we believe potential buyers would be willing to pay for such inventory or assets. An inaccurate estimate of any of the above or inaccurate valuation of the assets or inventory could result in us submitting a bid that exceeds the realizable proceeds from any engagement. If the liquidation proceeds, net of direct operating expenses, are less than the amount we guaranteed in our bid, we will incur a loss. Therefore, in the event that the proceeds, net of direct operating expenses, from an engagement are less than the bid, the value of the assets or inventory decline in value prior to the disposition or liquidation, or the assets are overvalued for any reason, we may suffer a loss and our financial condition and results of operations could be adversely affected.

***Losses due to any auction or liquidation engagement may cause us to become unable to make payments due to our creditors and may cause us to default on our debt obligations.***

We have three engagement structures: (i) a fee based structure under which we are compensated for our role in an engagement on a commission basis, (ii) purchase on an outright basis (and take title to) the assets or inventory of the client, and (iii) guarantee to the client that a certain amount will be realized by the client upon the sale of the assets or inventory based on contractually defined terms in the auction or liquidation contract. We bear the risk of loss under the purchase and guarantee structures of auction and liquidation contracts. If the amount realized from the sale or disposition of assets, net of direct operating expenses, does not equal or exceed the purchase price (in purchase transaction), we will

## Edgar Filing: Great American Group, Inc. - Form 10-Q

recognize a loss on the engagement, or should the amount realized, net of direct operating expenses, not equal or exceed the guarantee, we are still required to pay the guaranteed amount to the client.

***We could incur losses in connection with outright purchase transactions in which we engage as part of our auction and liquidation solutions business.***

When we conduct an asset disposition or liquidation on an outright purchase basis, we purchase from the client the assets or inventory to be sold or liquidated and therefore, we hold title to any assets or inventory that we are not able to sell. In other situations, we may acquire assets from our clients if we believe that we can identify a potential buyer and sell the assets at a premium to the price paid. We store these unsold or acquired assets and inventory until they can be sold or, alternatively, transported to the site of a liquidation of comparable assets or inventory that we are conducting. If we are forced to sell these assets for less than we paid, or are required to transport and store assets multiple times, the related expenses could have a material adverse effect on our results of operations.

## **Table of Contents**

***We depend on financial institutions as primary clients for our valuation and appraisal services business. Consequently, the loss of any financial institutions as clients may have an adverse impact on our business.***

A majority of the revenue from our valuation and appraisal services business is derived from engagements by financial institutions. As a result, any loss of financial institutions as clients of our valuation and advisory services, whether due to changing preferences in service providers, failures of financial institutions or mergers and consolidations within the finance industry, could significantly reduce the number of existing, repeat and potential clients, thereby adversely affecting our revenues. In addition, any larger financial institutions that result from mergers or consolidations in the financial services industry could have greater leverage in negotiating terms of engagements with us, or could decide to internally perform some or all of the valuation and appraisal services which we currently provide to one of the constituent institutions involved in the merger or consolidation or which we could provide in the future. Any of these developments could have a material adverse effect on our valuation and appraisal services business.

***Our business may be impacted by changing economic and market conditions.***

Certain aspects of our business are cyclical in nature and changes in the current economic environment may require us to adjust our sales and marketing practices and react to different business opportunities and modes of competition. For example, we are more likely to conduct auctions and liquidations in connection with insolvencies and store closures during periods of economic downturn relative to periods of economic expansion. In addition, during an economic downturn, financial institutions that provide asset-based loans typically reduce the number of loans made, which reduces their need for our valuation and appraisal services. If we are not successful in reacting to changing economic conditions, we may lose business opportunities which could harm our financial condition.

***We may face liability or harm to our reputation as a result of a claim that we provided an inaccurate appraisal or valuation and our insurance coverage may not be sufficient to cover the liability.***

We could face liability in connection with a claim by a client that we provided an inaccurate appraisal or valuation on which the client relied. Any claim of this type, whether with or without merit, could result in costly litigation, which could divert management's attention and company resources and harm our reputation. Furthermore, if we are found to be liable, we may be required to pay damages. While our appraisals and valuations are typically provided only for the benefit of our clients, if a third party relies on an appraisal or valuation and suffers harm as a result, we may become subject to a legal claim, even if the claim is without merit. We carry insurance for liability resulting from errors or omissions in connection with our appraisals and valuations; however, the coverage may not be sufficient if we are found to be liable in connection with a claim by a client or third party.

***We could be forced to mark down the value of certain assets acquired in connection with outright purchase transactions.***

In most instances, inventory is reported on the balance sheet at its historical cost; however, according to U.S. Generally Accepted Accounting Principles, inventory whose historical cost exceeds its market value should be valued conservatively, which dictates a lower value should apply. Accordingly, should the replacement cost (due to technological obsolescence or otherwise), or the net realizable value of any inventory we hold be less than the cost paid to acquire such inventory (purchase price), we will be required to mark down the value of such inventory held. If the value of any inventory held on our balance sheet, including, but not limited to, oil rigs and other equipment related to the oil exploration business and airplane parts, is required to be written down, such write down could have a material adverse effect on our financial position and results of operations.

***We operate in highly competitive industries. Some of our competitors may have certain competitive advantages, which may cause us to be unable to effectively compete with or gain market share from our competitors.***

We face competition with respect to all of our service areas. The level of competition depends on the particular service area and category of assets being liquidated or appraised. We compete with other companies in bidding for assets and inventory to be liquidated. In addition, we compete with online services for liquidating assets and inventory, the demand for which are rapidly growing. These online competitors include other e-commerce providers, auction websites such as eBay, as well as government agencies and traditional liquidators and auctioneers that have created websites to further enhance their product offerings and more efficiently liquidate assets. We expect the market to become even more competitive as the demand for such services continues to increase and traditional and online liquidators and auctioneers continue to develop online and offline services for disposition, redeployment and remarketing of wholesale surplus and salvage assets. In addition, manufacturers, retailers and government agencies may decide to create their own websites to sell their own surplus assets and inventory and those of third parties.

## Edgar Filing: Great American Group, Inc. - Form 10-Q

We also compete with other providers of valuation and advisory services. Competitive pressures within the valuation and appraisal services market, including a decrease in the number of engagements and/or a decrease in the fees which can be charged for these services, could affect revenues from our valuation and appraisal services as well as our ability to engage new or repeat clients. We believe that given the relatively low barriers to entry in the valuation and appraisal services market, this market may become more competitive as the demand for such services increases.

## **Table of Contents**

Some of our competitors may be able to devote greater financial resources to marketing and promotional campaigns, secure merchandise from sellers on more favorable terms, adopt more aggressive pricing or inventory availability policies and devote more resources to website and systems development than we are able to do. Any inability on our part to effectively compete could have a material adverse effect on our financial condition, growth potential and results of operations.

***If we are unable to attract and retain qualified personnel, we may not be able to compete successfully in our industry.***

Our future success depends to a significant degree upon the continued contributions of senior management and the ability to attract and retain other highly qualified management personnel. We face competition for management from other companies and organizations; therefore, we may not be able to retain our existing personnel or fill new positions or vacancies created by expansion or turnover at existing compensation levels. Although we have entered into employment agreements with key members of the senior management team, there can be no assurances such key individuals will remain with us. The loss of any of our executive officers or other key management personnel would disrupt our operations and divert the time and attention of our remaining officers and management personnel which could have an adverse effect on our results of operations and potential for growth.

We also face competition for highly skilled employees with experience in our industry, which requires a unique knowledge base. We may be unable to recruit or retain other existing technical, sales and client support personnel that are critical to our ability to execute our business plan.

***Expanding our services internationally exposes us to additional operational challenges, and if we fail to meet these challenges, our growth will be limited and our results of operations may be harmed.***

We recently expanded our operations into the United Kingdom and plan to enter other European and Asian markets, either through acquisition, partnership, joint venture or by expansion. Our management has limited experience in operating a business at the international level. As a result, we may be unsuccessful in carrying out any of our plans for expansion in a timely fashion, if at all, obtaining the necessary licensing, permits or market saturation, or in successfully navigating other challenges posed by operating an international business. Such international expansion is expected to require a significant amount of start up costs, as well. If we fail to execute this strategy, our growth will be limited and our results of operations may be harmed.

***We frequently use borrowings under credit facilities in connection with our guaranty engagements, in which we guarantee a minimum recovery to the client, and outright purchase transactions.***

In engagements where we operate on a guaranty or purchase basis, we are typically required to make an upfront payment to the client. If the upfront payment is less than 100% of the guarantee or the purchase price in a purchase transaction, we may be required to make successive cash payments until the guarantee is met or we may issue a letter of credit in favor of the client. Depending on the size and structure of the engagement, we may borrow under our credit facilities and may be required to issue a letter of credit in favor of the client for these additional amounts. If we lose any availability under our credit facilities, are unable to borrow under credit facilities and/or issue letters of credit in favor of clients, or borrow under credit facilities and/or issue letters of credit on commercially reasonable terms, we may be unable to pursue large liquidation and disposition engagements, engage in multiple concurrent engagements, pursue new engagements or expand our operations. We are required to obtain approval from the lenders under our existing credit facilities prior to making any borrowings thereunder in connection with a particular engagement. Any inability to borrow under our credit facilities, or enter into one or more other credit facilities on commercially reasonable terms may have a material adverse effect on our financial condition, results of operations and growth.

***Defaults under our credit agreement could have an adverse impact on our ability to finance potential engagements.***

The terms of our current credit agreement contains a number of events of default and, in the past, we have defaulted under our credit agreements for failing to provide timely financial statements and for failing to maintain minimum net worth requirements. Should we default under any of our credit agreements in the future, lenders may take any or all remedial actions set forth in such credit agreement, including, but not limited to, accelerating payment and/or charging us a default rate of interest on all outstanding amounts, refusing to make any further advances or issue letters of credit, or terminating the line of credit. As a result of our reliance on lines of credit and letters of credit, any default under a credit agreement, or remedial actions pursued by lenders following any default under a credit agreement, may require us to immediately repay all outstanding amounts, which may preclude us from pursuing new liquidation and disposition engagements and may increase our cost of capital, each of which may have a material adverse effect on our financial condition and results of operations.

***If we cannot meet our future capital requirements, we may be unable to develop and enhance our services, take advantage of business opportunities and respond to competitive pressures.***

## Edgar Filing: Great American Group, Inc. - Form 10-Q

We may need to raise additional funds in the future to grow our business internally, invest in new businesses, expand through acquisitions, enhance our current services or respond to changes in our target markets. If we raise additional capital through the sale of equity or equity derivative securities, the issuance of these securities could result in dilution to our existing stockholders. If additional funds are raised through the issuance of debt securities, the terms of that debt could impose additional restrictions on our operations or harm our financial condition. Additional financing may be unavailable on acceptable terms.

## **Table of Contents**

*Our common stock price may fluctuate substantially, and your investment could suffer a decline in value.*

The market price of our common stock may be volatile and could fluctuate substantially due to many factors, including, among other things:

actual or anticipated fluctuations in our results of operations;

announcements of significant contracts and transactions by us or our competitors;

sale of common stock or other securities in the future;

the trading volume of our common stock;

changes in our pricing policies or the pricing policies of our competitors; and

general economic conditions.

In addition, the stock market in general and the market for shares traded on the OTCBB in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These broad market factors may materially harm the market price of our common stock, regardless of our operating performance.

*There is a limited market for our common shares and the trading price of our common shares is subject to volatility.*

Our common shares began trading on the OTCBB in August 2009, following the completion of the Acquisition. The trading market for our common shares is limited and an active trading market may not develop. Selling our common shares may be difficult because the limited trading market for our shares on the OTCBB could result in lower prices and larger spreads in the bid and ask prices of our shares, as well as lower trading volume.

In addition, our stock may be defined as a penny stock under Rule 3a51-1 under the Exchange Act. Penny stocks are subject to Rule 15c-2-02, which imposes additional sales practice requirements on broker-dealers that sell low-priced securities to persons other than established customers and institutional accredited investors. For transactions covered by this rule, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to sale. Consequently, the rule may affect the ability of broker-dealers to sell our common stock and affect the ability of holders to sell their shares of our common stock in the secondary market. To the extent our common stock is subject to the penny stock regulations, the market liquidity for the shares will be adversely affected.

*Our certificate of incorporation authorizes our board of directors to issue new series of preferred stock that may have the effect of delaying or preventing a change of control, which could adversely affect the value of your shares.*

Our certificate of incorporation, as amended, provides that our board of directors will be authorized to issue from time to time, without further stockholder approval, up to 10,000,000 shares of preferred stock in one or more series and to fix or alter the designations, preferences, rights and any qualifications, limitations or restrictions of the shares of each series, including the dividend rights, dividend rates, conversion rights, voting rights, rights of redemption, including sinking fund provisions, redemption price or prices, liquidation preferences and the number of shares constituting any series or designations of any series. Such shares of preferred stock could have preferences over our common stock with respect to dividends and liquidation rights. We may issue additional preferred stock in ways which may delay, defer or prevent a change of control of our company without further action by our stockholders. Such shares of preferred stock may be issued with voting rights that may adversely affect the voting power of the holders of our common stock by increasing the number of outstanding shares having voting rights, and by the creation of class or series voting rights.

*Anti-takeover provisions under our charter documents and Delaware law could delay or prevent a change of control and could also limit the market price of our stock.*

Our certificate of incorporation, as amended, and our bylaws, as amended, contain provisions that could delay or prevent a change of control of our company or changes in our board of directors that our stockholders might consider favorable. For example, our certificate of incorporation and bylaws provide that our board of directors is classified into three classes of directors, with each class elected at a separate election. The existence of a staggered board could delay or prevent a potential acquirer from obtaining majority control of our board, and thus defer potential acquisitions. We are also governed by the provisions of Section 203 of the Delaware General Corporate Law, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding voting stock. These and other provisions in our certificate of incorporation, our bylaws and Delaware law could make it more difficult for stockholders or potential acquirors to obtain control of our board of directors or initiate actions that are opposed by the then-current board of directors, including delaying or impeding a merger, tender offer, or proxy contest or other change of control transaction involving our company. Any delay or prevention of a change of control transaction or changes in our board of directors could prevent the consummation of a transaction in which our stockholders could receive a substantial premium over the then current market price for their shares.

**Table of Contents**

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

None.

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

None.

**Item 4. (Reserved)**

**Item 5. Other Information.**

On May 9, 2011, GAGEE, a subsidiary of the Company, and GAG, LLC, a subsidiary of the Company, entered into a Waiver and Second Amendment to Credit Agreement (the "Second Amendment") with Garrison Loan Agency Services LLC ( "Administrative Agent"), relating to the Credit Agreement, dated as of May 29, 2008 (the "Credit Agreement"), by and among GAGEE, as borrower, GAG, LLC, as guarantor, the Lenders and the Administrative Agent. GAGEE was formed in 2008 as a special purpose limited liability company to finance the purchase of certain equipment which, at March 31, 2011, had a net book value of approximately \$11.6 million. The first amendment to the Credit Agreement, dated as of December 18, 2009, expired on November 18, 2010 and the principal amount of borrowings and interest due under the Credit Agreement, which totaled approximately \$11.7 million as of such date, became due and payable by GAGEE.

Pursuant to the terms of the the Second Amendment, the maturity date of the Credit Agreement was extended to December 31, 2011 with an interest rate of 0% through maturity. The Second Amendment also provides for the Lender to reimburse GAGEE for certain expenses from proceeds of the sale or lease of the assets that collateralize the note payable as more fully described in the Second Amendment. The Second Amendment does not provide for recourse against GAG, LLC or the Company. At March 31, 2011, the aggregate principal balance of the note payable was \$11.7 million.

The preceding summary of the material provisions of the Second Amendment is qualified in its entirety by reference to the complete text of the Second Amendment, a copy of which is filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q.

**Item 6. Exhibits.**

The exhibits filed as part of this Quarterly Report are listed in the index to exhibits immediately preceding such exhibits, which index to exhibits is incorporated herein by reference.

**Table of Contents**

**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.

GREAT AMERICAN GROUP, INC.

Date: May 16, 2011

By: /s/ PAUL S. ERICKSON  
Name: Paul S. Erickson  
Title: Chief Financial Officer

(Principal Financial Officer)

**Table of Contents**

**Exhibit Index**

<b>Exhibit No.</b>	<b>Description</b>
10.1	Waiver and Second Amendment to Credit Agreement, dated as of May 9, 2011, by and among Great American Group Energy Equipment, LLC, Great American Group, LLC and Garrison Loan Agency Services LLC*
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934*
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934*
32.1	Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

\* Filed herewith.

These exhibits are being furnished and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall they be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing.