

Great American Group, Inc.  
Form 10-Q  
May 15, 2012

**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, 2012**

**or**

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

**For the transition period from                      to**

**Commission File Number 000-54010**

**GREAT AMERICAN GROUP, INC.**  
(Exact Name of Registrant as Specified in Its Charter)

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Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

27-0223495  
(I.R.S. Employer 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 x No "

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 " Smaller reporting company x

(Do not check if a 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 o No x

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As of May 10, 2012, there were 30,001,609 shares of the Registrant's common stock, par value \$0.0001 per share, outstanding.

**Great American Group, Inc.**

**Quarterly Report on Form 10-Q**

**For The Quarter Ended March 31, 2012**

**Table of Contents**

	Page
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1 Unaudited Financial Statements	3
Condensed Consolidated Balance Sheets as of March 31, 2012 and December 31, 2011	3
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three months ended March 31, 2012 and 2011	4
Condensed Consolidated Statement of Stockholders' Equity (Deficit) for the three months ended March 31, 2012 and 2011	5
Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2012 and 2011	6
Notes to Condensed Consolidated Financial Statements	7
Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3 Quantitative and Qualitative Disclosures About Market Risk	30
Item 4 Controls and Procedures	30
<b>PART II. OTHER INFORMATION</b>	
Item 1 Legal Proceedings	30
Item 1A Risk Factors	31
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	36
Item 3 Defaults Upon Senior Securities	36
Item 4 Mine Safety Disclosures	36

Item 5 Other Information	36
Item 6 Exhibits	36
Signatures	37

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

	March 31, 2012 (Unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 20,806	\$ 15,034
Restricted cash	256	—
Accounts receivable, net	8,179	7,482
Advances against customer contracts	4,974	5,276
Goods held for sale or auction	12,467	12,934
Loan receivable	5,027	8,306
Note receivable - related party	3,844	3,844
Deferred income taxes	4,471	4,460
Prepaid expenses and other current assets	1,482	1,110
Total current assets	61,506	58,446
Property and equipment, net	827	916
Goodwill	5,688	5,688
Other intangible assets, net	140	140
Deferred income taxes	9,915	10,504
Other assets	740	664
Total assets	\$ 78,816	\$ 76,358
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 15,602	\$ 13,718
Auction and liquidation proceeds payable	424	18
Mandatorily redeemable noncontrolling interests	2,738	3,408
Revolving credit facility	1,615	1,942
Current portion of long-term debt	1,724	1,724
Note payable	11,449	11,555
Current portion of capital lease obligation	29	29
Total current liabilities	33,581	32,394

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Capital lease obligation, net of current portion	6	13
Long-term debt, net of current portion	52,207	52,207
Total liabilities	85,794	84,614
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; 30,001,609 and 31,001,609 issued and outstanding as of March 31, 2012 and December 31, 2011, respectively	4	4
Additional paid-in capital	3,177	3,177
Retained earnings (deficit)	(10,123 )	(11,190 )
Accumulated other comprehensive income (loss)	(36 )	(247 )
Total stockholders' equity (deficit)	(6,978 )	(8,256 )
Total liabilities and stockholders' equity (deficit)	\$ 78,816	\$ 76,358

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

**GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)****(Unaudited)****(Dollars in thousands, except share data)**

	Three Months Ended March 31,	
	2012	2011
Revenues:		
Services and fees	\$16,900	\$13,003
Sale of goods	2,420	813
Total revenues	19,320	13,816
Operating expenses:		
Direct cost of services	6,252	4,812
Cost of goods sold	2,149	908
Selling, general and administrative expenses	8,519	7,791
Total operating expenses	16,920	13,511
Operating income	2,400	305
Other income (expense):		
Other expense	—	(4 )
Interest income	79	137
Income (loss) from equity investment in Great American Real Estate, LLC	(80 )	68
Interest expense	(627 )	(328 )
Income before income taxes	1,772	178
Provision for income taxes	(705 )	(704 )
Net income (loss)	\$1,067	\$(526 )
Basic income (loss) per share	\$0.04	\$(0.02 )
Diluted income (loss) per share	\$0.04	\$(0.02 )
Weighted average basic shares outstanding	28,681,609	28,360,875
Weighted average diluted shares outstanding	29,534,610	28,360,875
Comprehensive income (loss):		
Net income (loss)	\$1,067	\$(526 )
Other comprehensive income (loss):		
Change in cumulative translation adjustment	211	(20 )
Other comprehensive income (loss), net of tax	211	(20 )
Comprehensive income (loss)	\$1,278	\$(546 )

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





**GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Stockholders' Equity (Deficit)****For the Three Months Ended March 31, 2012 and 2011****(Unaudited)****(Dollars in thousands)**

	Preferred Stock Shares	Amount	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Total Stockholders' Equity (Deficit)
Balance, January 1, 2011	—	\$ —	30,559,036	\$ 4	\$ 2,878	\$(11,792)	\$ 7	\$ (8,903 )
Net loss for the three months ended March 31, 2011	—	—	—	—	—	(526 )	—	(526 )
Foreign currency translation adjustment	—	—	—	—	—	—	(20 )	(20 )
Comprehensive income	—	—	—	—	—	—	—	(546 )
Vesting of restricted stock, net of shares withheld for employment taxes	—	—	182,758	—	(90 )	—	—	(90 )
Share based compensation	—	—	—	—	358	—	—	358
Balance, March 31, 2011	—	\$ —	30,741,794	\$ 4	\$ 3,146	\$(12,318)	\$ (13 )	\$ (9,181 )
Balance, January 1, 2012	—	\$ —	31,001,609	\$ 4	\$ 3,177	\$(11,190)	\$ (247 )	\$ (8,256 )
Net income for the three months ended March 31, 2012	—	—	—	—	—	1,067	—	1,067
Foreign currency translation adjustment	—	—	—	—	—	—	211	211
Comprehensive income	—	—	—	—	—	—	—	1,278
Cancellation of founders contingent shares held in escrow	—	—	(1,000,000 )	—	—	—	—	-
Balance, March 31, 2012	—	\$ —	30,001,609	\$ 4	\$ 3,177	\$(10,123)	\$ (36 )	\$ (6,978 )

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

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

	Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net income (loss)	\$ 1,067	\$ (526 )
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	201	221
Impairment of goods held for sale or auction	21	–
Share-based payments	–	358
Effect of foreign currency on operations	64	(22 )
Non-cash interest	(77 )	(428 )
Loss (income) from equity investment in Great American Real Estate, LLC	80	(68 )
Loss on disposal of assets	–	3
Deferred income taxes	578	701
Income allocated to mandatorily redeemable noncontrolling interests	369	738
Change in operating assets and liabilities:		
Accounts receivable and advances against customer contracts	(394 )	(1,026 )
Goods held for sale or auction	399	608
Loan receivable	3,279	–
Prepaid expenses and other assets	(371 )	186
Accounts payable and accrued expenses	1,886	(5,078 )
Auction and liquidation proceeds payable	406	4,171
Net cash provided by (used in) operating activities	7,508	(162 )
Cash flows from investing activities:		
Purchases of property and equipment	(65 )	(39 )
Decrease in note receivable - related party	–	2,706
Equity investment in Great American Real Estate, LLC	(80 )	(46 )
Increase in restricted cash	(256 )	(113 )
Net cash (used in) provided by investing activities	(401 )	2,508
Cash flows from financing activities:		
Repayments of capital lease obligations	(7 )	(7 )
Repayments of revolving line of credit	(327 )	–
Repayments of notes payable	(106 )	–
Payment of employment taxes on vesting of restricted stock	–	(90 )
Distribution to noncontrolling interests	(1,039 )	(429 )
Net cash used in financing activities	(1,479 )	(526 )
Increase in cash and cash equivalents	5,628	1,820
Effect of foreign currency on cash	144	2

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Net increase in cash and cash equivalents	5,772	1,822
Cash and cash equivalents, beginning of period	15,034	20,080
Cash and cash equivalents, end of period	\$ 20,806	\$ 21,902
Supplemental disclosures:		
Interest paid	\$ 704	\$ 122

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

**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. and its subsidiaries (collectively the “Company”) provide 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 throughout the United States, Canada, and the United Kingdom. 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, United Kingdom and Canada. In the Auction and Liquidation segment, the Company provides auction and liquidation services to help clients dispose of assets, real estate services and capital advisory services. 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 the reverse merger with Alternative Asset Management Acquisition Corp. (“AAMAC”) on July 31, 2009. During the three months ended March 31, 2012 and year ended December 31, 2011, the Company generated net income of \$1,067 and \$602, respectively. The Company’s profitability is impacted by the number and size of retail liquidation engagements performed on a quarterly and annual basis. 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 \$53,931 of subordinated, unsecured promissory notes payable to Andy Gumaer and Harvey Yellen, the two former members of Great American Group, LLC (the “Great American Members”), both of whom are

executive officers and directors of the Company and certain members of senior management of Great American Group, LLC (“GAG, LLC”) that were participants in a deferred compensation plan (the “Phantom Equityholders”), resulted in the net use of \$2,045 of cash from operations during the year ended December 31, 2011.

Effective July 31, 2011, the Company entered into individual amendments that increased the principal amount of the promissory notes with the two former Great American Members by an aggregate amount of \$1,762 of accrued interest that was originally due on July 31, 2011. The addition to the principal amount will accrue interest at the note rate of 3.75% and continue to be subject to annual prepayments based upon the Company’s cash flow and the maintenance of a minimum adjusted cash balance as provided in the notes prior to the capitalization of the accrued interest. As a result, the principal balance of the promissory notes to the two former Great American Members increased from an aggregate amount of \$46,996 to \$48,759.

In addition to amending the subordinated, unsecured promissory notes payable to the two former Great American Members, the Company has implemented cost reduction measures that have resulted in a reduction in employee headcount, reduction in base salaries to senior executives, and other cost savings measures. While the Company has implemented these cost reduction measures, the Company has also expanded its operations in the United States with the formation of GA Keen Realty Advisors in January 2011 and continues to expand its operations in the United Kingdom. These business activities have increased the overall operating costs of the Company on an annual basis; however, these efforts contributed favorably to the operating results of the Company during the three months ended March 31, 2012 and year ended December 31, 2011.

As of March 31, 2012, the Company had \$20,806 in cash, \$1,615 of borrowings outstanding on its revolving credit facility 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 Great American Group, Inc. and its wholly-owned and majority-owned subsidiaries. The condensed consolidated financial statements have been prepared by the Company, without audit, pursuant to interim financial reporting guidelines and the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Company's management, all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of the financial position and the results of operations for the periods presented have been included. These condensed consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, filed with the Securities and Exchange Commission on March 31, 2012. The results of operations for the three months ended March 31, 2012, are not necessarily indicative of the operating results to be expected for the full fiscal year or any future periods.

(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 and Appraisal segment also include contractual reimbursable costs which totaled \$616 and \$568 for the three months ended March 31, 2012 and 2011, 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 real estate services and the origination of loans; (v) financing activities recorded over the lives of related loans receivable using the interest method and (vi) revenues from contractual reimbursable expenses incurred in connection with auction and liquidation contracts.

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 condensed consolidated statement of operations. Under these types of

arrangements, revenues also include contractual reimbursable costs which totaled \$821 and \$947 for the three months ended March 31, 2012 and 2011, 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 condensed 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 real estate services and 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 \$743 of revenues and \$320 of direct cost of services subject to collaborative arrangements during the three months ended March 31, 2012 and \$1,220 of revenues and \$671 of direct cost of services subject to collaborative arrangements during the three months ended March 31, 2011.

(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***

Revenues from one real estate services contract represented 10.1% of total revenues during the three months ended March 31, 2012. Revenues from one liquidation service contract in the United Kingdom represented 10.4% of total revenues during the three months ended March 31, 2011. Total revenues in the Valuation and Appraisal segment and the Auction and Liquidation segment are primarily generated in the United States.

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.

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 accounts under the control of a financial institution as collateral for letters of credit relating to liquidation engagements in connection with the \$100,000 credit facility described in Note 6 and restricted cash related to proceeds received from the assets that collateralize the \$11,449 note payable described in Note 8. As of March 31, 2012, the restricted cash related to proceeds received from the assets that collateralize the \$11,449 note payable.

**(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, 2012 and March 31, 2011. Bad debt expense is included as a component of selling, general and administrative expenses in the accompanying condensed consolidated statement of operations.

**(j)** *Advances Against Customer Contracts*

Advances against customer contracts represent advances of contractually reimbursable expenses incurred prior to, and during the term of the liquidation services contract. These advances are charged to expense in the period that revenue is recognized under the contract.

**(k)** *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.

**(l)** *Loan Receivable*

Loan receivable in the amount of \$5,027 and \$8,306 at March 31, 2012 and December 31, 2011, respectively, is stated at amortized cost and consists of a loan acquired from an investment bank at a discount from face value that provided financing to a retail company with operations in the United Kingdom. In April and May 2012, \$4,366 of the outstanding balance from the loan receivable was collected. Interest income is recognized using the effective interest method and the discount is amortized to income over the stated term of the loan receivable. Financing revenues earned from the loan receivable totaled \$678 during the three months ended March 31, 2012 and included interest income of \$221 and amortization of discount on the loan receivable of \$457. There were no financing revenues earned during the three months ended March 31, 2011. These revenues from financing activities in included in revenues from services and fees in the auction and liquidation segment in the condensed consolidated statement of operations.

*(m)*

***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 \$154 and \$173 for the three months ended March 31, 2012 and 2011, respectively.

(n)

**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 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, 2012 and December 31, 2011 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.

The following tables present information on the liabilities measured and recorded at fair value on a recurring basis as of March 31, 2012 and December 31, 2011.

	Financial Assets Measured at Fair Value on a Recurring Basis at March 31, 2012, Using			
	Quoted prices in Fair Value at active markets for March 31, identical assets 2012 (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	\$ 2,266	\$ -	\$ -	\$ 2,266
Total liabilities measured at fair value	\$ 2,266	\$ -	\$ -	\$ 2,266

	Financial Assets Measured at Fair Value on a Recurring Basis at December 31, 2011, Using			
	Quoted prices in Fair Value at active markets for December 31, identical assets 2011 (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	

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	December 31, 2011	identical assets (Level 1)	inputs (Level 2)	inputs (Level 3)
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	\$ 2,882	\$ -	\$ -	\$ 2,882
Total liabilities measured at fair value	\$ 2,882	\$ -	\$ -	\$ 2,882

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.

(o)

***Fiduciary Funds***

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. There were no funds held by the Company on behalf of clients at March 31, 2012 and there was \$906 of funds held on behalf of clients December 31, 2011. These funds were disbursed in accordance with the respective loan administration agreements subsequent to the balance sheet date.

(r)

***Recent Accounting Pronouncements***

In May 2011, the FASB issued ASU No. 2011-04, “*Fair Value Measurement (Topic 820) – Amendments to Achieve Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS.*” This ASU addresses fair value measurement and disclosure requirements within Accounting Standards Codification (“ASC”) Topic 820 for the purpose of providing consistency and common meaning between U.S. GAAP and IFRS. Generally, this ASU is not intended to change the application of the requirements in Topic 820. Rather, this ASU primarily changes the wording to describe many of the requirements in U.S. GAAP for measuring fair value or for disclosing information about fair value measurements. This ASU is effective for periods beginning after December 15, 2011. The adoption of this standard did not have a material impact on the Company’s condensed consolidated financial position and results of operation.

In September 2011, the FASB issued ASU No. 2011-08, “*Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment.*” ASU 2011-08 is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is “more likely than not” that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350, *Intangibles-Goodwill and Other*. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this standard did not have a material impact on the Company’s condensed consolidated financial position and results of operation.

In December 2011, the FASB issued ASU No. 2011-12, “*Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05,*” which defers the effective date pertaining to reclassification adjustments out of accumulated other comprehensive income in ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. The ASU is effective at the same time as the amendments in Update 2011-05. The adoption of this standard did not have a material impact on the Company’s condensed consolidated financial position and results of operations.

**NOTE 3— ACCOUNTS RECEIVABLE**

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

	March 31, 2012	December 31, 2011
Accounts receivable	\$ 7,283	\$ 7,829
Unbilled receivables	1,320	77
Total accounts receivable	8,603	7,906
Allowance for doubtful accounts	(424 )	(424 )
Accounts receivable, net	\$ 8,179	\$ 7,482

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

	Three Months Ended March 31,	
	2012	2011
Balance, beginning of period	\$ 424	\$ 15
Add: Additions to reserve	-	-
Less: Write-offs	-	-
Less: Recoveries	-	-
Balance, end of period	\$ 424	\$ 15

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.

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

	March 31, 2012	December 31, 2011
Machinery and equipment	\$ 6,929	\$ 10,189
Leased equipment	4,602	1,781
Aircraft parts and other	936	964



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Total	\$ 12,467	\$ 12,934
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Goods held for sale or auction includes machinery and equipment, leased equipment with a carrying value of \$4,867 and \$2,000, net of accumulated depreciation of \$265 and \$219 as of March 31, 2012 and December 31, 2011, respectively, and aircraft parts and other. Machinery and equipment is primarily comprised of oil rigs with a carrying value of \$6,713 and \$9,737 as of March 31, 2012 and December 31, 2011, respectively, and includes a lower of cost or market adjustment of \$1,087. The leased equipment consists of two oil rigs that are depreciated over a period of 15 years which approximates their useful life. Aircraft parts and other is primarily comprised of aircraft parts with a carrying value of \$936 and \$964 which includes a lower of cost or market adjustment of \$648 and \$627 as of March 31, 2012 and December 31, 2011, respectively. The total amount recorded by the Company for a lower-of-cost or market adjustment for goods held for sale or auction was \$21 during the three months ended March 31, 2012. The Company has recorded deferred revenue of \$784 and \$624 at March 31, 2012 and December 31, 2011, respectively, for non-refundable rent collected that may be applied to the purchase option at the end of the lease term in accordance with the lease agreement for the oil rig.

Machinery and equipment with a carrying value of \$6,713 and leased equipment with a carrying value of \$4,602 serve as collateral for the \$11,449 note payable as of March 31, 2012 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 include customer relationships which are being amortized over their estimated useful lives of 6 years. Other intangible assets include customer relationships of \$970 and accumulated amortization of \$970 and trademarks of \$140 which have been identified as an indefinite lived intangible asset that is not being amortized at March 31, 2012 and December 31, 2011. Amortization expense was \$41 for the three months ended March 31, 2011. There was no amortization expense for three months ended March 31, 2012.

## **NOTE 6— CREDIT FACILITIES**

The Company has a \$100,000 asset based credit facility with a financial institution that expires on July 16, 2013. The asset based credit facility can be used for borrowings and letter of credit obligations up to the aggregate amount of \$100,000. The base rate on the credit facility is 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%. 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 fee of \$15) for the three months ended March 31, 2011. There was no outstanding balance for cash borrowings or letters of credit obligations under this credit facility at March 31, 2012 and December 31, 2011.

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, the 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.

On May 17, 2011, GAAV entered into a Loan and Security Agreement (Accounts Receivable Line of Credit) (the "Line of Credit") with BFI Business Finance ("BFI"). The Line of Credit is collateralized by the accounts receivable of GAAV and allows for borrowings in the amount of 85% of the net face amount of prime accounts, as defined in the Line of Credit, with maximum borrowings not to exceed \$2,000. The interest rate under the Line of Credit is the prime rate plus 2%, payable monthly in arrears. The Line of Credit was originally scheduled to expire on May 16, 2012; however, the Line of Credit was amended effective February 3, 2012 and the expiration date was extended to February 3, 2013 and the maximum borrowings allowed was increased from \$2,000 to \$3,000. The maturity date may be extended for successive periods equal to one year, unless GAAV gives BFI written notice of its intent to terminate the Line of Credit at least thirty days prior to the maturity date of the Line of Credit. BFI has the right to terminate the Line of Credit at its sole discretion upon giving sixty days' prior written notice to GAAV. In connection with the Line of Credit, GAG, LLC entered into a limited continuing guaranty of GAAV's obligations under the Line of Credit. Interest expense totaled \$38 for the three months ended March 31, 2012.

**NOTE 7— LONG-TERM DEBT**

Long-term debt consists of the following arrangements:

	March 31, 2012	December 31, 2011
\$60,000 notes payable to each of the former Great American Members and the Phantom Equityholders of GAG, LLC issued in connection with the Acquisition dated July 31, 2009	\$ 53,931	\$ 53,931
Total long-term debt	53,931	53,931
Less current portion of long-term debt	1,724	1,724
Long-term debt, net of current portion	\$ 52,207	\$ 52,207

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

On July 31, 2009, in connection with the Acquisition, the Company issued a note payable to the Great American Members and Phantom Equityholders 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 promissory notes (collectively, the “Notes”) issued in favor of each of the Great American Members and Phantom Equityholders. 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 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. 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, 2012 and 2011. The remaining notes with \$8,621 principal amount outstanding continue to be payable in five equal annual principal payments as described above.

In addition, effective July 31, 2011, the Company entered into individual amendments that increased the principal amount of the promissory notes with Andy Gumaer and Harvey Yellen, the two former Great American Members, both of whom are executive officers and directors of the Company, by an aggregate amount of \$1,762 of accrued interest that was originally due on July 31, 2011. The addition to the principal amount will accrue interest at the note

rate of 3.75% and continue to be subject to annual prepayments based upon the Company's cash flow and the maintenance of a minimum adjusted cash balance as provided in the notes prior to the capitalization of the accrued interest. As a result, the principal balance of the promissory notes to the two former Great American Members increased from an aggregate amount of \$46,996 to \$48,759.

At March 31, 2012, the maturity date for \$48,759 of principal amount payable to the two former Great American Members is due on July 31, 2018, subject to annual prepayments based on the Company's cash flows and other limitations as described above. The remaining \$5,172 of principal amount payable to the Phantom Equityholders is due in three equal annual installments on July 31, 2012, 2013 and 2014.

Interest expense was \$538 and \$550 for the three months ended March 31, 2012 and 2011, respectively. In accordance with the Amendments to the notes payable, the current portion of the amended notes payable in the amount of \$1,724 and the long-term portion of the amended notes payable in the amount of \$52,207 has been recorded in the accompanying condensed consolidated balance sheets as of March 31, 2012 and December 31, 2011. Accrued interest payable was \$352 and \$365 on the notes payable as of March 31, 2012 and December 31, 2011, respectively, and is included in accounts payable and accrued expenses in the condensed consolidated balance sheets.

## NOTE 8— NOTES PAYABLE

On May 29, 2008, GAGEE entered into a credit agreement with Garrison Special Opportunities Fund LP, 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. 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. On November 3, 2009, the Company held an auction of the assets collateralizing GAGEE’s obligation. 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. 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.

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 forebear from exercising any of the remedies available to them under the Forbearance Agreement and the related Security Agreement and to extend the maturity date of the Forbearance Agreement until November 18, 2010, unless a forbearance default occurs, as specified in the Amended Credit Agreement. Pursuant to the terms of the First Amendment To Credit Agreement and Second Amendment To Credit Agreement (collectively, the Amended 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 Amended Credit Agreement. The Forbearance Agreement expired on November 18, 2010. GAGEE entered into a Second Amendment to the credit agreement on May 9, 2011, which extended the maturity date of the note payable to November 19, 2011 with an interest rate of 0% through maturity (the “Second Amendment to the Credit Agreement”). The Second Amendment to the Credit Agreement also provided 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 a result of the delay in

entering into the Second Amendment to the Credit Agreement, interest in the amount of \$309 was accrued from the date of the expiration of the First Amendment to the Credit Agreement on November 18, 2010 to December 31, 2010 at an interest rate of 22% (the default rate). This accrued interest of \$309 was reversed in the first quarter of 2011, as the Second Amendment to the Credit Agreement provides for 0% interest for that period, and reflected in the consolidated statement of operations as a reduction of interest expense. GAGEE entered into a Third Amendment to the Credit Agreement on March 19, 2012, which extended the maturity date of the note payable to December 31, 2012 with an interest rate of 0% through maturity. The Third Amendment to the Credit Agreement 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. GAGEE has no assets other than those collateralizing the loan which is comprised of machinery and equipment with a carrying value of \$6,713 and leased equipment with a carrying value of \$4,602 that is included in goods held for sale or auction in the accompanying balance sheet at March 31, 2012. 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. There was no interest expense in connection with this note payable during the three months ended March 31, 2012 and the reversal of interest expense of \$309 in the first quarter of 2011 is reflected in the condensed consolidated statement of operations for the three months ended March 31, 2011 as a reduction of interest expense.

On July 21, 2011, GAG, LLC entered into a loan agreement with Dialectic Capital Partners, LP, Dialectic Offshore Ltd., Dialectic Antithesis Partners, LP and Dialectic Antithesis Offshore Fund, Ltd. (collectively, the “Dialectic Lenders”) and Dialectic Capital Management, LLC as collateral agent. The loan agreement provided for a loan of \$7,000 to GAG, LLC pursuant to a promissory note (the “Dialectic Note”) with a stated principal amount of \$7,609 (the “Maturity Value”) and maturity date of July 31, 2013. No interest is due or payable on the Dialectic Note until after November 1, 2011, at which time the Dialectic Note would begin to accrue interest at a rate of 14%, payable quarterly on the last day of January, April, July and October. The loan was used to fund a portion of GAG, LLC’s obligations in connection with its participation in a liquidation transaction. The loan agreement also provided for profit participation payments to the Dialectic Lenders up to a maximum of 5% of the Maturity Value. The Dialectic Note was prepaid in full with no penalty on October 27, 2011.

**NOTE 9— INCOME TAXES**

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

	Three Months Ended March 31,	
	2012	2011
Current:		
Federal	\$ -	\$ -
State	127	3
Total current provision	127	3
Deferred:		
Federal	529	554
State	49	147
Total deferred provision	578	701
Total provision for income taxes	\$ 705	\$ 704

A reconciliation of the federal statutory rate of 34% for the three months ended March 31, 2012 and 2011 to the effective tax rate for income (loss) from operations before income taxes is as follows:

	Three Months Ended March 31,			
	2012		2011	
Provision for income taxes at federal statutory rate	34.0	%	34.0	%
State income taxes, net of federal benefit	4.6		5.6	
Tax differential on vesting of restricted stock	-		353.9	



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Other	1.2	2.0
Effective income tax rate	39.8 %	395.5 %

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

	March 31, 2012	December 31, 2011
Deferred tax assets:		
Allowance for doubtful accounts	\$ 152	\$ 150
Goods held for sale or auction	1,070	1,049
Deductible goodwill	562	566
Accrued liabilities	1,107	934
Deferred revenue	281	221
Mandatorily redeemable noncontrolling interests	693	685
Note payable to Phantom Equityholders	1,853	1,830
Share based payments	67	67
Other	49	68
Net operating loss carryforward	8,552	9,394
Total deferred tax assets	\$ 14,386	\$ 14,964

As of December 31, 2011, the Company had federal net operating loss carryforwards of \$22,386 and state net operating loss carryforwards of \$21,737. 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, 2012 and December 31, 2011, 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.

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, 2011, 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 common shares outstanding exclude 1,320,000 common shares that are held in escrow and subject to recall and 1,000,000 common shares issued to the AAMAC founders that were cancelled during the three months ended March 31, 2012 since certain earnings before interest, taxes, depreciation and amortization were not achieved for fiscal years 2009 to 2011 as defined in the Acquisition agreement. The 1,320,000 common shares issued to the former Great American members that are subject to recall upon the final settlement of claims for goods held for sale in connection with the Acquisition. Dilutive common shares outstanding includes contingently issuable shares that are currently in escrow and subject to release if the conditions for the final settlement of claims for goods held for sale in connection with the Acquisition was satisfied at the end of the respective periods.

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

Three Months Ended

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	March 31,	
	2012	2011
Net income (loss)	\$1,067	\$(526 )
Weighted average shares outstanding:		
Basic	28,681,609	28,360,875
Effect of dilutive potential common shares:		
Restricted stock units and non-vested shares	-	-
Contingently issuable shares	853,001	-
Diluted	29,534,610	28,360,875
Basic income (loss) per share	\$0.04	\$(0.02 )
Diluted income (loss) per share	\$0.04	\$(0.02 )

**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 condensed consolidated financial position or results of operations.

## **NOTE 12— RELATED PARTY TRANSACTIONS**

On January 4, 2010, the Company loaned \$2,706 to GAHA Fund I, a wholly-owned subsidiary of GARE, a joint venture 50% owned by the Company and 50% owned by Kelly Capital, LLC. GAHA Fund I was created to purchase land and a commercial building that was subsequently sold by GAHA Fund I in January 2011. The note receivable was 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. Interest income was \$10 for the three months ended March 31, 2011 and is included in interest income in the accompanying condensed consolidated statement of operations.

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 was originally due on July 8, 2011. In July 2011, the maturity date of the loan was extended and the interest rate was reduced to 8% per annum. On December 29, 2011, additional funds in the amount of \$620 were loaned to GARE and the note receivable was amended to increase the outstanding balance to \$3,844 and extend the maturity date to July 31, 2012. Interest income was \$77 and \$120 for the three months ended March 31, 2012 and 2011, respectively, and is included in interest income in the accompanying consolidated statement of operations. The note receivable in the amount of \$3,844 is included in note-receivable – related party and accrued interest receivable in the amount of \$681 and \$604 is included in prepaid expenses and other current assets as of March 31, 2012 and December 31, 2011, respectively, in the accompanying condensed consolidated balance sheet.

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 condensed consolidated financial statements do not consolidate GARE. Income (loss) from GARE is accounted for under the equity method of accounting. The loss from the investment in GARE was \$80 during the three months ended March 31, 2012 and income from the investment in GARE was \$68 during the three months ended March 31, 2011, and is included in other income (loss) in the condensed consolidated statements of operations. At March 31, 2012, the maximum amount of loss exposure related to the VIE is equal to the carrying value of the respective note receivable – related party and accrued interest receivable described above.

## **NOTE 13— 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.

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

	Three Months Ended March 31,	
	2012	2011
Auction and Liquidation reportable segment:		
Revenues - Services and fees	\$10,740	\$7,824
Revenues - Sale of goods	2,420	813
Total revenues	13,160	8,637
Direct cost of services	(3,499 )	(2,709 )
Cost of goods sold	(2,149 )	(908 )
Selling, general, and administrative expenses	(3,777 )	(2,678 )
Depreciation and amortization	(116 )	(39 )
Segment income	3,619	2,303
Valuation and Appraisal reportable segment:		
Revenues	6,160	5,179
Direct cost of revenues	(2,753 )	(2,103 )
Selling, general, and administrative expenses	(1,760 )	(1,845 )
Depreciation and amortization	(37 )	(37 )
Segment income	1,610	1,194
Consolidated operating income from reportable segments	5,229	3,497
Corporate and other expenses	(2,829 )	(3,192 )
Other expense	-	(4 )
Interest income	79	137
Income (loss) from equity investment in Great American Real Estate, LLC	(80 )	68
Interest expense	(627 )	(328 )
Income from operations before provision for income taxes	1,772	178
Provision for income taxes	(705 )	(704 )
Net income (loss)	\$1,067	\$(526 )
Capital expenditures:		
Auction and Liquidation segment	\$29	\$39
Valuation and Appraisal segment	36	-
Total	\$65	\$39

As of	As of
March 31,	December 31,
2012	2011

Total assets:

Auction and Liquidation segment	\$ 70,887	\$ 68,182
Valuation and Appraisal segment	7,929	8,176
Total	\$ 78,816	\$ 76,358

**NOTE 14— SUBSEQUENT EVENTS**

On May 4, 2012, the Company invested \$65 for a 40% interest in the common stock of Shoon Trading Limited (“Shoon”), a shoe retailer with operations in the United Kingdom. Shoon purchased the rights to operate the internet business and retail stores that were in administration in the United Kingdom. As part of the investment, the Company also loaned Shoon approximately \$1,300 that is collateralized by retail inventory. The loan bears interest at LIBOR plus 6.0%, interest only payable monthly, with a maturity date of May 3, 2014. The Company also has the right to appoint a Chairman of Shoon. Together with the Company’s 40% investment in the common stock of Shoon and control of the majority of the board or directors, the Company is deemed to be the primary beneficiary of Shoon. As such, the Company will be required to consolidate the operations of Shoon and include the operations of Shoon in the Company’s condensed statement of operations from the date of the investment.

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, 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*

## 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 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. 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 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, Canada, and the United Kingdom.

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.

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, TJ Hughes, 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. 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 to provide services to help retailers downsize through inventory liquidation and

store closures in addition to providing appraisal and valuation services. During the quarter ended March 31, 2012, we generated approximately \$5.2 million of revenues, an increase of \$1.9 million, from the \$3.3 million of revenues we generated from services and fees from appraisal and auction and liquidation services engagements in our European operations during the quarter ended March 31, 2011.

In January 2011, the Keen Consultants' real estate team joined us and now operates as GA Keen Realty Advisors. This division provides 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 offers its services to property owners, tenants, secured and unsecured creditors, attorneys, and financial advisors. Revenues generated from GA Keen Realty Advisors increased to \$3.0 million during the quarter ended March 31, 2012 from no revenues during the quarter ended March 31, 2011 as the division was newly formed and just starting operations.

Historically, revenues from our auction and liquidation segment have comprised a significant amount of our total revenues and operating profits. During the three months ended March 31, 2012 and year ended December 31, 2011, revenues from our auction and liquidation segment were 68.1% and 64.1% 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 \$13.2 million during the three months ended March 31, 2012 of which \$8.1 million, or 61.8% of this total, was generated from our activities in Europe and real estate advisory services performed by GA Keen Realty Advisors. 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 liquidation engagements in the United States and wholesale and industrial auctions were \$4.9 million, or 36.9%, of total revenues during the three months ended March 31, 2012.

## Critical Accounting Policies

Our condensed 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 condensed 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, 2011. 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, 2012.

## 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, 2012 Compared to Three Months Ended March 31, 2011*

## Condensed Consolidated Statements of Operations

(dollars in thousands)

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
	Amount	%	Amount	%
Revenues:				
Services and fees	\$ 16,900	87.5 %	\$ 13,003	94.1 %
Sale of goods	2,420	12.5 %	813	5.9 %
Total revenues	19,320	100.0 %	13,816	100.0 %
Operating expenses:				
Direct cost of services	6,252	32.4 %	4,812	34.8 %
Cost of goods sold	2,149	11.1 %	908	6.6 %
Selling, general and administrative expenses	8,519	44.1 %	7,791	56.4 %
Total operating expenses	16,920	87.6 %	13,511	97.8 %
Operating income	2,400	12.4 %	305	2.2 %

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Other income (expense):								
Other expense	-	0.0	%	(4	)	0.0	%	
Interest income	79	0.3	%	137		1.0	%	
Income (loss) from equity investment in Great American Real Estate, LLC	(80	)	-0.4	%	68		0.5	%
Interest expense	(627	)	-3.1	%	(328	)	-2.4	%
Income (loss) from operations before provision for income taxes	1,772		9.2	%	178		1.3	%
Provision for income taxes	(705	)	-3.7	%	(704	)	-5.1	%
Net income (loss)	\$ 1,067		5.5	%	\$ (526	)	-3.8	%

**Revenues.** Total revenues increased \$5.5 million, or 39.8%, to \$19.3 million during the three months ended March 31, 2012 from \$13.8 million during the three months ended March 31, 2011. The increase in revenues during the three months ended March 31, 2012 was primarily due to an increase in revenues in the auction and liquidation segment of \$4.5 million and an increase in revenues in the valuation and appraisal services segment of \$1.0 million as compared to the same period in 2011. The increase in revenues in the auction and liquidation segment in 2012 was primarily due (a) an increase in revenues from real estate advisory services of \$3.0 million, from our GA Keen Realty Advisors division that was formed in January 2011; (b) an increase in revenues from \$1.9 million from retail liquidation engagements which is primarily the result of an increase in revenues from our United Kingdom operations; and (c) an increase in revenues of \$1.6 million from the sales of goods where we held title, offset by a decrease in revenues of \$1.7 million in capital advisory fees performed by our GA Capital operations and a decrease in revenues of \$0.3 million from the auction of wholesale and industrial equipment. The increase in revenues of \$1.0 million in the valuation and appraisal services segment was primarily due to an increase in revenues related to appraisals we perform for the monitoring of collateral for financial institutions, lenders, and private equity investors.

**Revenue and Gross Margin by Segment****(dollars in thousands)****Auction and Liquidation Segment:**

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
	Amount	%	Amount	%
<b>Revenues:</b>				
Services and fees	\$ 10,740	81.6 %	\$ 7,824	90.6 %
Sale of goods	2,420	18.4 %	813	9.4 %
Total revenues	13,160	100.0 %	8,637	100.0 %
Direct cost of services	3,499	26.6 %	2,709	31.4 %
Cost of goods sold	2,149	16.3 %	908	10.5 %
Total operating expenses	5,648	42.9 %	3,617	41.9 %
Gross margin	\$ 7,512	57.1 %	\$ 5,020	58.1 %
Gross margin services and fees	67.4 %		65.4 %	
Gross margin sales of goods	11.2 %		-11.7 %	

Revenues in the auction and liquidation segment increased \$4.6 million, or 52.4%, to \$13.2 million during the three months ended March 31, 2012 from \$8.6 million during the three months ended March 31, 2011. Revenues from services and fees increased to \$10.7 million during the three months ended March 31, 2012, an increase of \$2.9 million, or 37.3%, from \$7.8 million during the three months ended March 31, 2011. The increase in revenues from services and fees was primarily due to an increase in revenues from real estate advisory services of \$3.0 million, from our GA Keen Realty Advisors division that was formed in January 2011; (b) an increase in revenues from \$1.9 million from retail liquidation engagements which is primarily the result of an increase in revenues from our United Kingdom operations, offset by a decrease in revenues of \$1.7 million in capital advisory fees performed by our GA Capital operations and a decrease in revenues of \$0.3 million from the auction of wholesale and industrial equipment. Revenues from gross sales of goods where we held title to the goods increased \$1.6 million to \$2.4 million during the three months ended March 31, 2012 from \$0.8 million during the three months ended March 31, 2011. The increase in revenues from the sale of goods where we held title was primarily due to an increase in the volume of machinery and equipment we sell at wholesale and industrial auctions in 2012 as compare to the same period in 2011.

Gross margin in the auction and liquidation segment decreased to 57.1% of revenues during the three months ended March 31, 2012, as compared to 58.1% of revenues during the three months ended March 31, 2011. The decrease in the gross margin during the three months ended March 31, 2012 was primarily due to an increase in the number of fee and commission engagements where we bill fees and reimbursable costs and margins are historically lower than liquidation engagements where we provided a minimum recovery value for goods sold at bankruptcy liquidation sales.

Gross margin from the sales of goods where we held title was 11.2% during the three months ended March 31, 2012 as compared to (11.7%) during the three months ended March 31, 2011. The gross margin in 2012 was favorably impacted by the sale of machinery and equipment we sell at wholesale and industrial auctions which had higher profit margins in 2012 as compared to the same period in 2011.

**Valuation and Appraisal Segment:**

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011		
	Amount	%	Amount	%	
Revenues - Services and fees	\$ 6,160	100.0	% \$ 5,179	100.0	%
Direct cost of services	2,753	44.7	% 2,103	40.6	%
Gross margin	\$ 3,407	55.3	% \$ 3,076	59.4	%

Revenues in the valuation and appraisal segment increased \$1.0 million, or 18.9%, to \$6.2 million during the three months ended March 31, 2012 from \$5.2 million during the three months ended March 31, 2011. The increase in revenues was primarily due to an increase 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 decreased to 55.3% of revenues during the three months ended March 31, 2012 as compared to 59.4% of revenues during the three months ended March 31, 2011. Gross margins were unfavorably impacted by an increase in headcount that resulted in an increase in salaries, wages and benefits in 2012 as compared to the same period in 2011.

**Operating Expenses**

**Direct Costs of Services.** Total direct costs of services increased \$1.5 million, or 29.9%, to \$6.3 million during the three months ended March 31, 2012 from \$4.8 million during the three months ended March 31, 2011. Direct costs of services in the auction and liquidation segment increased \$0.8 million, or 29.2%, to \$3.5 million during the three months ended March 31, 2012 from \$2.7 million during the three months ended March 31, 2011. The increase in expenses was primarily due to an increase in the number of fee and commission type engagements in 2012 where we contractually bill fees, commissions and reimbursable expenses as compared to the same period in 2011. Direct costs of services in the valuation and appraisal services segment increased \$0.7 million, or 30.9%, to \$2.8 million during the three months ended March 31, 2012 from \$2.1 million during the three months ended March 31, 2011. The increase was primarily due to an increase in headcount which resulted in an increase in salaries, wages and benefits in 2012 as compared to the same period in 2011.

**Cost of Goods Sold.** Cost of goods sold increased \$1.2 million to \$2.2 million during the three months ended March 31, 2012 from \$0.9 million during the three months ended March 31, 2011. As a percentage of gross sales of goods where we hold title to the goods, costs of goods sold was 88.8% during the three months ended March 31, 2012 as compared to 111.7% during the three months ended March 31, 2011. The increase in the gross margin on the sale



of goods was primarily the result of the sale of machinery and equipment with higher gross margins sold at wholesale and industrial auctions in the three months ended March 31, 2012 as compared to the same period in 2011.

**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, 2012		Three Months Ended March 31, 2011		Change	
	Amount	%	Amount	%	Amount	%
Auction and liquidation	\$3,893	45.7 %	\$2,717	34.8 %	\$1,176	43.3 %
Valuation and appraisal	1,797	21.1 %	1,882	24.2 %	(85 )	-4.5 %
Corporate and other	2,829	33.2 %	3,192	41.0 %	(363 )	-11.4 %
Total selling, general & administrative expenses	\$8,519	100.0%	\$7,791	100.0%	\$728	9.3 %

Total selling, general and administrative expenses increased \$0.7 million, or 9.3%, to \$8.5 million during the three months ended March 31, 2012 from \$7.8 million for the three months ended March 31, 2011. The increase in selling, general and administrative expenses was primarily due to an increase in selling, general and administrative expenses of \$1.2 million in the auction and liquidation segment offset by a decrease in selling, general and administrative expenses in the valuation and appraisal segment of \$0.1 million and a decrease of \$0.4 million in corporate and other. Selling, general and administrative expenses in the auction and liquidation segment increased \$1.2 million, or 43.3%, to \$3.9 million during the three months ended March 31, 2012 from \$2.7 million for the three months ended March 31, 2011. The increase was primarily due to an increase in payroll related expenses of \$1.2 million as a result of profit sharing bonuses accrued during the quarter ended March 31, 2012 from the increase in profitability of our GA Keen Realty Advisors division and our European operations.

Selling, general and administrative expenses in the valuation and appraisal services segment decreased \$0.1 million, or 4.5%, to \$1.8 million during the three months ended March 31, 2012 from \$1.9 million for the three months ended March 31, 2011. The decrease was primarily due to a decrease in headcount in administrative functions in the valuation and appraisal segment that resulted in a decrease in salaries and wages in 2012 as compared to the same period in 2011. Selling, general and administrative expenses for corporate and other decreased \$0.4 million, or 11.4%, to \$2.8 million during the three months ended March 31, 2012 from \$3.2 million for the three months ended March 31, 2011. This decrease was primarily due to a decrease of \$0.4 million in share based compensation expense related to consideration paid to the Phantom Equityholders in connection with the Acquisition on July 31, 2009 that was incurred during the three months ended March 31, 2011 and no corresponding expense was incurred during the three months ended March 31, 2012.

**Other Income (Expense).** Other income (expense) during each of the three month periods ended March 31, 2012 and 2011, was comprised of \$0.1 million of interest income on our note receivable – related party as described in note 12 to our condensed consolidated financial statements. Other income (expense) also includes a loss of \$0.1 million during the three months ended March 31, 2012 and income of \$0.1 million during the three months ended March 31, 2011 from our 50% share of income generated from the operations of Great American Real Estate, LLC (“GARE”), a joint venture with Kelly Capital.

**Interest Expense.** Interest expense increased to \$0.6 million during the three months ended March 31, 2012 from \$0.3 million during the three months ended March 31, 2011. Interest expense in the three months ended March 31, 2012 was primarily due to a interest expense on the notes payable to the Great American Members and Phantom Equityholders. Interest expenses during the three months ended March 31, 2011 was primarily due to interest expense of \$0.6 million on the notes payable to the Great American Members and Phantom Equityholders, offset by the reversal of interest expense of \$0.3 million during the quarter that was accrued at December 31, 2010 on the note payable that is collateralized by machinery and equipment as more fully described in note 8 to the accompanying condensed consolidated financial statements. The reversal of interest expense was the result of the execution of the Second Amendment to Credit Agreement on the note payable that is collateralized by machinery and equipment during the first quarter of 2011.

**Income Before Income Taxes.** Income before income taxes was \$1.8 million during the three months ended March 31, 2012, an increase of \$1.6 million, as compared to income before income taxes of \$0.2 million during the three months ended March 31, 2011. The increase in income before income taxes was primarily due to the increase in revenues and profits earned in 2012 as compared to the same period in 2011.

**Net Income (Loss).** Net income for the three months ended March 31, 2012 was \$1.1 million compared to a net loss of \$0.5 million during the three months ended March 31, 2011. The increase in net income during the three months ended March 31, 2012 was primarily due to the increase in revenues and profits earned during 2012 as compared to the same period in 2011.

## Liquidity and Capital Resources

Our operations have been funded through a combination of operating profits generated from operations, borrowings under our revolving credit facility and existing cash on hand. During the three months ended March 31, 2012 and year ended December 31, 2011, we generated net income of \$1.1 million and \$0.6 million, respectively. Our profitability is impacted by the number and size of retail liquidation engagements performed on a quarterly and annual basis. Our cash flow from operations is also impacted by the interest expense on the \$53.9 million of subordinated, unsecured promissory notes payable to the Great American Members and Phantom Equityholders. We generated cash from operations during the three months ended March 31, 2012 of \$7.4 million and used cash from operations of \$2.0 million during the year ended December 31, 2011.

Effective July 31, 2011, we entered into individual amendments that increased the principal amount of the promissory notes with the two former Great American Members by an aggregate amount of \$1.8 million of accrued interest that was originally due on July 31, 2011. The addition to the principal amount will accrue interest at the note rate of 3.75% and continue to be subject to annual prepayments based upon our cash flow and the maintenance of a minimum adjusted cash balance as provided in the notes prior to the capitalization of the accrued interest. As a result, the principal balance of the promissory notes to the two former Great American Members increased from an aggregate amount of \$47.0 million to \$48.8 million. The remaining \$5.1 million of the \$53.9 million of principal amount of the promissory notes is payable to the Phantom Equityholders with three equal annual debt service payments of principal in the amount of \$1.7 million beginning July 31, 2012.

While we continue to monitor our expenses, we have expanded our operations in the United States with the formation of GA Keen Realty Advisors in January 2011 and continue to expand our operations in the United Kingdom. These business activities have increased our overall operating costs on an annual basis; however, these efforts contributed favorably to our operating results during the three months ended March 31, 2012 and year ended December 31, 2011.

As of March 31, 2012, we had \$20.8 million of unrestricted cash and \$1.6 million of borrowings outstanding on its revolving credit facility and no borrowings outstanding under the asset based credit facility. We believe that our 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. 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.

## Cash Flow Summary

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Three Months Ended  
 March 31,  
 2012      2011

Net cash provided by (used in):		
Operating activities	\$ 7,508	\$ (162 )
Investing activities	(401 )	2,508
Financing activities	(1,479 )	(526 )
Effect of foreign currency on cash	144	2
Net increase in cash and cash equivalents	\$ 5,772	\$ 1,822

Cash provided by operating activities was \$7.5 million for the three months ended March 31, 2012 compared to cash used in operating activities of \$0.2 million in the same period in 2011. The increase in cash provided by operating activities in 2012 was primarily due to an increase in revenues and income from operations during the three months ended March 31, 2012 as compared to the same period in 2011. Net cash used in investing activities was \$0.4 million for the three months ended March 31, 2012 compared to cash provided by investing activities of \$2.5 million during the three months ended March 31, 2011. Net cash used in investing activities was primarily comprised of the purchase of property and equipment of \$0.1 million and an increase in restricted cash of \$0.3 million during the three months ended March 31, 2012 compared to net cash provided by investing activities in the prior year which was primarily comprised of proceeds from the collection of principal balance on the note receivable – related party in the amount of \$2.7 million offset by the 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 \$1.5 million for the three months ended March 31, 2012 compared to cash used in financing activities of \$0.5 million during the three months ended March 31, 2011. Cash used in financing activities in 2012 consisted of \$0.4 million for the repayment of borrowings under our revolving line of credit and note payable and \$1.1 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. 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, 2012 and December 31, 2011, there was no outstanding balance under the credit facility for borrowing or outstanding letters of credit.

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. Under the original credit agreement, the principal amount of the loan was \$12.0 million and borrowings bear interest at a rate of 20% per annum. The loan is collateralized by the oil rigs and other equipment related to the oil exploration business that was 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. GAGEE entered into further amendments, the most recent Third Amendment to the Credit Agreement dated March 19, 2012, which extended the maturity date of the note payable to December 31, 2012 with an interest rate of 0% through maturity. The Third Amendment to the Credit Agreement also provided 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.

*Accounts Receivable Line of Credit*

On May 17, 2011, one of our majority owned subsidiaries entered into an Accounts Receivable Line of Credit with a finance company. The Accounts Receivable Line of Credit is collateralized by the accounts receivable of our majority owned subsidiary and allows for borrowings in the amount of 85% of the net face amount of prime accounts, as defined in the Accounts Receivable Line of Credit, with maximum borrowings not to exceed \$2.0 million. The interest rate under the Accounts Receivable Line of Credit is the prime rate plus 2%, payable monthly in arrears. The Accounts Receivable Line of Credit was originally scheduled to expire on May 16, 2012; however, the Accounts Receivable Line of Credit was amended effective February 3, 2012 and the expiration date was extended to February 3, 2013 and the maximum borrowings allowed was increased from \$2.0 million to \$3.0 million. The maturity date may be extended for successive periods equal to one year, unless our majority owned subsidiary gives the finance company written notice of its intent to terminate the Accounts Receivable Line of Credit at least thirty days prior to the maturity date of the Accounts Receivable Line of Credit. The finance company has the right to terminate the Accounts Receivable Line of Credit at its sole discretion upon giving sixty days' prior written notice. In connection with the Accounts Receivable Line of Credit, GAG, LLC entered into a limited continuing guaranty of our majority owned subsidiary's obligations under the Accounts Receivable Line of Credit. Borrowings outstanding under the Accounts Receivable Line of Credit were \$1.6 million and \$1.9 million at March 31, 2012 and December 31, 2011, respectively.

***Promissory Notes***

In 2010 we amended an aggregate of \$52.4 million of the \$55.6 million principal amount then outstanding of the subordinated, unsecured promissory notes payable to the Great American Members and Phantom Equityholders in connection with the Acquisition, which reduced the interest rate on these notes 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. Each prepayment, if any, is due within 30 days of the filing of our Annual Report on Form 10-K, beginning with the Form 10-K for the fiscal year ended December 31, 2010. There were no prepayments due on the notes payable under this prepayment provision on April 30, 2011 and no prepayment is due for the fiscal year ended December 31, 2011. In addition, we entered into individual waivers for an aggregate of \$51.3 million of the \$55.3 million principal amount then outstanding, whereby the noteholders permitted 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. Effective July 31, 2011, we entered into individual amendments with the Great American Members that increased the principal amount of the promissory notes from \$47.0 million to \$48.8 million, for the \$1.8 million of accrued interest that was due on July 31, 2011. The addition to the principal amount will accrue interest at the note rate of 3.75% and continue to be subject to annual prepayments based upon our cash flow and the maintenance of a minimum adjusted cash balance as provided in the notes prior to the capitalization of the accrued interest. On July 26, 2011 and August 3, 2011, we received waivers from certain of the Phantom Equityholders that permitted us to extend the payment date for \$1.4 million of the \$1.7 million of principal amount originally due and payable on July 31, 2011 until the fourth quarter of 2011. Of the \$1.4 million principal amount originally due on July 31, 2011, \$0.6 million of principal amount was paid to two of the Phantom Equityholders on October 1, 2011, \$0.3 million of principal amount was paid to one of the Phantom Equityholders on October 15, 2011, and \$0.5 million of principal amount was paid to the remaining two Phantom Equityholders on November 4, 2011.

As of March 31, 2012 and December 31, 2011, there was \$48.8 million in aggregate principal amount outstanding owed to the Great American Members, all of which accrues interest at 3.75%. As of March 31, 2012 and December 31, 2011, there was \$5.1 million in aggregate principal amount outstanding payable to the Phantom Equityholders. Of this amount, \$52.0 million accrues interest at 3.75% and \$1.9 million accrues interest at 12.0%.

**Off Balance Sheet Arrangements**

On July 8, 2010, the Company loaned \$3.2 million 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 was originally due on July 8, 2011. In July 2011, the maturity date of the loan was extended and the interest rate was reduced to 8% per annum. On December 29, 2011, additional funds in the amount of \$0.6 million were loaned to GARE and the note receivable was amended to increase the outstanding balance to \$3.8 million and



extend the maturity date to July 31, 2012. Interest income was \$0.1 million for the three months ended March 31, 2012 and is included in interest income in the accompanying condensed consolidated statement of operations. The note receivable in the amount of \$3.8 million is included in note-receivable – related party and accrued interest receivable in the amount of \$0.7 million is included in prepaid expenses and other current assets as of March 31, 2012 in the accompanying condensed consolidated balance sheet.

Other than with respect to our arrangements with 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.

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, 2012. 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, 2012.

*(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.

## 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 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 were profitable during the three months ended March 31, 2012 and year ended December 31, 2011, we incurred a net loss during year ended December 31, 2010. Our operations in 2010 were impacted by fewer liquidation engagements during the year as economic conditions for retailers and credit markets improved. Revenues in our auction and liquidation segment were \$21.0 million during the year ended December 31, 2010 as compared to \$40.8 million during the years ended December 31, 2011. Our profitability in each reporting period is impacted by the number and size of retail liquidation engagements we perform on a quarterly or annual basis. It is possible that we will experience losses with respect to our current operations as we continue to expand our operations. 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 Chairman and Vice Chairman who own or control, in the aggregate, 10,560,000 shares of our common stock or 34.4% of our outstanding common stock as of March 31, 2012. As of March 31, 2012, an aggregate principal amount of \$53.9 million remains outstanding on the promissory notes. We have entered into amendments and waivers with the Great American Members and certain of the Phantom Equityholders that reduce the interest rate of the notes, defer interest payments and, with respect to the Great American Members, extend the maturity date of the notes and increase the principal amount payable by the amount of accrued but unpaid interest under the notes. As of March 31, 2012, an aggregate principal amount of \$48.8 million remains in notes outstanding to the Great American Members. These notes have an interest rate of 3.75% and a maturity date of July 31, 2018 (subject to annual principal payments based upon our cash flow, with certain limitations). As of March 31, 2012, there is an aggregate principal amount of \$5.1 million in notes outstanding payable to the Phantom Equityholders. Of this amount, \$52.0 million have an interest rate of 3.75% and \$1.9 million have an interest rate of 12.0%.

However, despite these amendments to the promissory notes 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. This indebtedness could have material consequences for our business, operations and liquidity position, including the following:

- 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 40.6% of our outstanding common stock as of March 31, 2012. In particular, our Chairman and Vice Chairman own or control, in the aggregate, 10,560,000 shares of our common stock or 34.4% of our outstanding common stock as of March 31, 2012. 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.

***We may incur losses as a result of lending activities in the United Kingdom that include the acquisition of distressed debt from banks and finance or investment companies in connection with our auction and liquidation solutions business.***

In some instances, we may provide financing to clients in the United Kingdom with a focus in the retail industry that are in need of junior secured loans for growth capital, working capital, and turnaround financing. Because of the difference in the legal regime in which retailers operate in the United Kingdom, our business activities in the United Kingdom may frequently involve lending activities that include the acquisition of debt of distressed retailers from banks and finance companies at a discount to face value. These loans are serviced by us and are generally secured by assets of the retailer, including inventory, accounts receivable, real estate and intellectual property. The determination of the amount we may lend or the purchase price we pay to acquire the distressed debt is based on a variety of factors, including: our evaluation of the estimated realized value of the inventory of the retailer and collateral of the debt in the event the retailer would need to be liquidated. An inaccurate estimate of any of the above or inaccurate valuation of the assets or inventory could result in us lending amounts or purchasing debt for an amount that may not be realizable in the event the retailer would need to be liquidated. Therefore, we may suffer credit losses from these financing activities 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 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.

***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.

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.

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.***

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.

***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-9, 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.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

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.

**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 15, 2012    By: /s/ Paul S. Erickson

Name: Paul S.  
Erickson  
Title: Chief Financial  
Officer

(Principal Financial  
Officer)



**Exhibit Index**

Exhibit No.	Description
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.
101.INS#	XBRL Instance Document
101.SCH#	XBRL Taxonomy Extension Schema Document
101.CAL#	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB#	XBRL Taxonomy Extension Label Linkbase Document
101.PRE#	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF#	XBRL Taxonomy Extension Definition Linkbase Document

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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.

Furnished herewith. In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be “filed” for purposes of Section 18 of the Securities and Exchange Act of 1934, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, except as expressly set forth by specific reference in such filing.