UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

or

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

For the transition period from to

Commission File Number 000-54010

GREAT AMERICAN GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**27-0223495**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
21860 Burbank Boulevard, Suite 300 South	
Woodland Hills, CA	**91367**
(Address of Principal Executive Offices)	**(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 ¨ No ¨

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

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

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

As of July 30, 2010, there were 30,318,705 shares of the Registrant s common stock, par value $0.0001 per share, outstanding.

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Great American Group, Inc.

Quarterly Report on Form 10-Q

For The Quarter Ended June 30, 2010

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Dollars in thousands, except par value)

	June 30, 2010 (Unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 26,493	$ 37,989
Restricted cash	1,895	459
Accounts receivable, net	1,915	2,628
Advances against customer contracts	5,563	58
Income taxes receivable	851	1,100
Goods held for sale or auction	13,956	15,014
Note receivable - related party	2,706	
Deferred income taxes	5,459	8,475
Prepaid expenses and other current assets	955	981
Total current assets	59,793	66,704
Property and equipment, net	1,484	1,411
Goodwill	5,688	5,688
Other intangible assets, net	302	382
Deferred income taxes	12,088	3,238
Other assets	648	1,250
Total assets	$ 80,003	$ 78,673
Liabilities and Stockholders Equity (Deficit)		
Current liabilities:		
Accounts payable and accrued liabilities	$ 9,726	$ 9,192
Auction and liquidation proceeds payable	683	446
Mandatorily redeemable noncontrolling interests	2,661	2,619
Asset based credit facility	8,746	
Current portion of long-term debt	1,724	11,123
Note payable	11,705	11,705
Current portion of capital lease obligation	25	25
Total current liabilities	35,270	35,110
Capital lease obligation, net of current portion	57	69
Long-term debt, net of current portion	53,893	44,494
Total liabilities	89,220	79,673
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; 30,318,705 and 30,022,478 issued and outstanding as of June 30, 2010 and December 31, 2009, respectively	3	3
Additional paid-in capital	1,121	(249)
Retained earnings (deficit)	(10,341)	(754)
Total stockholders equity (deficit)	(9,217)	(1,000)
Total liabilities and stockholders equity (deficit)	$ 80,003	$ 78,673

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

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GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Unaudited)

(Dollars in thousands, except share data)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Revenues:				
Services and fees	$ 2,279	$ 10,974	$ 12,909	$ 49,787
Sale of goods	2,936	4,066	4,373	7,141
Total revenues	5,215	15,040	17,282	56,928
Operating expenses:				
Direct cost of services	2,882	3,848	8,086	7,748
Cost of goods sold	3,993	2,513	5,537	5,702
Selling, general and administrative expenses	8,083	4,733	16,599	18,838
Total operating expenses	14,958	11,094	30,222	32,288
Operating income (loss)	(9,743)	3,946	(12,940)	24,640
Other income (expense):				
Other income (expense)	(455)	(257)	(867)	(239)
Interest income	87	4	177	8
Interest expense	(759)	(1,014)	(1,792)	(6,944)
Income (loss) from operations before benefit for income taxes	(10,870)	2,679	(15,422)	17,465
Benefit for income taxes	4,263		5,835	
Net income (loss)	$ (6,607)	$ 2,679	$ (9,587)	$ 17,465
Weighted average basic shares outstanding	27,998,705	10,560,000	27,949,607	10,560,000
Weighted average diluted shares outstanding	27,998,705	10,560,000	27,949,607	10,560,000
Basic and diluted earnings (loss) per share	$ (0.24)	$ 0.25	$ (0.34)	$ 1.65
Diluted earnings (loss) per share	$ (0.24)	$ 0.25	$ (0.34)	$ 1.65
PRO FORMA COMPUTATION RELATED TO CONVERSION TO C CORPORATION FOR INCOME TAX PURPOSES (unaudited):				
Historical income from operations before income taxes		$ 2,679		$ 17,465
Pro forma provision for income taxes		(1,055)		(6,881)
Pro forma net income		$ 1,624		$ 10,584
Pro forma weighted average basic shares outstanding		10,560,000		10,560,000
Pro forma weighted average diluted shares outstanding		10,560,000		10,560,000
Pro forma basic and diluted earnings per share		$ 0.15		$ 1.00
Pro forma diluted earnings (loss) per share		$ 0.15		$ 1.00

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

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GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Stockholders Equity (Deficit)

For the Six Months Ended June 30, 2010

(Unaudited)

(Dollars in thousands)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Total Stockholders Equity (Deficit)
	Shares	Amount	Shares	Amount			
Balance, January 1, 2010		$	30,022,478	$ 3	$ (249)	$ (754)	$ (1,000)
Vesting of restricted stock, net of shares withheld for employee taxes			296,227		(948)		(948)
Share based compensation					2,318		2,318
Net loss for the six months ended June 30, 2010						(9,587)	(9,587)
Balance, June 30, 2010		$	30,318,705	$ 3	$ 1,121	$ (10,341)	$ (9,217)

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

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GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Cash Flows

(Unaudited)

(Dollars in thousands)

	Six Months Ended June 30, 2010	2009
Cash flows from operating activities:		
Net income (loss)	$ (9,587)	$ 17,465
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	375	293
Provision (recoveries) of doubtful accounts	45	(18)
Impairment of goods held for sale or auction	1,308	
Share-based payments	2,398	200
Guaranteed payment distributions		534
Non-cash interest		6
Loss on disposal of assets	2	
Deferred income taxes	(5,835)	
Income allocated to mandatorily redeemable noncontrolling interests	661	1,022
Change in operating assets and liabilities:		
Accounts receivable and advances against customer contracts	(4,837)	(386)
Income taxes receivable	249	
Goods held for sale or auction	(250)	2,036
Prepaid expenses and other assets	629	(3,965)
Accounts payable and accrued expenses	534	1,555
Auction and liquidation proceeds payable	237	977
Accrued compensation plans		5,901
Net cash provided by (used in) operating activities	(14,071)	25,620
Cash flows from investing activities:		
Purchases of property and equipment	(370)	(262)
Increase in note receivable - related party	(2,706)	
Decrease (increase) in restricted cash	(1,436)	(3,574)
Net cash used in investing activities	(4,512)	(3,836)
Cash flows from financing activities:		
Proceeds from asset based credit facility, net	8,746	
Repayments of long-term debt and capital lease obligations	(12)	(1,175)
Payment of employment taxes on vesting of restricted stock	(948)	
Distributions to stockholders		(2,118)
Distribution to noncontrolling interests	(699)	(735)
Net cash provided by (used in) financing activities	7,087	(4,028)
Net increase (decrease) in cash and cash equivalents	(11,496)	17,756
Cash and cash equivalents, beginning of period	37,989	16,965

Cash and cash equivalents, end of period	$ 26,493	$ 34,721
Supplemental disclosures:		
Interest paid	$ 2,350	$ 5,892

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

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GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share data)

NOTE 1 ORGANIZATION, BUSINESS OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

Great American Group, Inc. (the Company) was incorporated under the laws of the state of Delaware on May 7, 2009 as a wholly-owned subsidiary of Alternative Asset Management Acquisition Corp. (AAMAC). The Company was formed as a shell company for the purpose of acquiring Great American Group, LLC (GAG, LLC), a California limited liability company, all as more fully described in Note 2.

On July 31, 2009, the members of GAG, LLC (the Great American Members) contributed all of their membership interests of GAG, LLC to the Company (the Contribution) in exchange for 10,560,000 shares of common stock of the Company and a subordinated unsecured promissory note in an initial principal amount of $60,000 (which was reduced by a principal payment of $4,383 at the closing of the Acquisition) issued in favor of the Great American Members and the phantom equityholders of GAG, LLC (the Phantom Equityholders , and together with the Great American Members, the Contribution Consideration Recipients) (see Note 8). Concurrently with the Contribution, AAMAC merged with and into AAMAC Merger Sub, Inc. (Merger Sub), a subsidiary of the Company (the Merger and, together with the Contribution, the Acquisition). As a result of the Acquisition, GAG, LLC and AAMAC became wholly-owned subsidiaries of the Company. The Acquisition has been accounted for as a reverse merger accompanied by a recapitalization of the Company.

The Company operates in two operating segments: auction and liquidation services (Auction and Liquidation) and valuation and appraisal services (Valuation and Appraisal). These services are provided to a wide range of retail, wholesale and industrial companies, as well as lenders, capital providers, private equity investors and professional service firms throughout the United States, Europe and Canada. The auction and liquidation services help clients dispose of assets. Such assets include multi-location retail inventory, wholesale inventory, trade fixtures, machinery and equipment, intellectual property and real property. The valuation and appraisal services provide 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 COMPLETED MERGER

The Company received net proceeds of $69,258 from AAMAC as a result of the Acquisition and issued 19,346,626 shares of common stock of the Company to AAMAC shareholders. At closing, $23,013 was deposited in a separate account with the transfer agent pending conduct of the Warrant Redemption. The Great American Members received 10,560,000 shares of common stock of the Company and $82,436 in accordance with the Agreement and Plan of Reorganization, dated as of May 14, 2009, as amended, (as amended, the Purchase Agreement) consisting of (i) cash distributions totaling $31,736 from GAG, LLC and (ii) $50,700 representing their share of the $60,000 unsecured subordinated promissory note. The remaining portion of the unsecured subordinated promissory note, which amounted to $9,300, was issued to the Phantom Equityholders in settlement of accrued compensation payable pursuant to the deferred compensation plan as more fully described in Note 14(b).

On October 2, 2009, the Company launched an offer to exchange all of its outstanding warrants for new warrants with a different exercise price and different expiration date (the Exchange Offer). The Exchange Offer, which was made pursuant to a prospectus dated October 2, 2009, expired on October 30, 2009. The Company s obligation to consummate the Exchange Offer was conditioned upon a minimum of 23,012,500 outstanding warrants, or 50% of the outstanding warrants, being validly tendered for exchange and not validly withdrawn prior to the expiration of the Exchange Offer (the Minimum Tender Condition). The Minimum Tender Condition was not satisfied and therefore, no Warrants were accepted in the Exchange Offer. In accordance with the terms of the Warrant Amendment, the Company redeemed all of the outstanding warrants to purchase shares of its common stock for $0.50 each as of October 29, 2009. The aggregate warrant redemption consideration paid to the warrant holders was $23,013. The warrants ceased being quoted on the OTC Bulletin Board on November 2, 2009.

Pursuant to a letter agreement, dated as of July 28, 2009 (the Letter Agreement) by and among the Company, AAMAC, GAG, LLC, and certain founding shareholders of AAMAC (the AAMAC Founders), the AAMAC Founders agreed to have 1,000,000 shares they received to be held in escrow until GAG, LLC s achievement of any one of the Adjusted EBITDA targets discussed below. The 1,000,000 shares, which are subject to voting restrictions while in escrow, will be forfeited and cancelled if GAG, LLC fails to achieve any of the Adjusted EBITDA targets discussed below.

GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except share data)

The Purchase Agreement provides for the issuance of 1,440,000 shares of common stock of the Company to the Phantom Equityholders pursuant to the following vesting schedule: 50% on January 31, 2010, 25% on July 31, 2010 and the remaining 25% on January 31, 2011, as more fully described in Note 13(b).

The Purchase Agreement also provides for the issuance of 6,000,000 additional shares of common stock (the Contingent Stock Consideration) to the Contribution Consideration Recipients as follows: (a) in the event GAG, LLC achieves any one of (i) $45,000 in Adjusted EBITDA (as defined in the Purchase Agreement) for the twelve months ending December 31, 2009, (ii) $47,500 in Adjusted EBITDA for the twelve months ending March 31, 2010, or (iii) $50,000 in Adjusted EBITDA for the twelve months ending June 30, 2010, the Company will be obligated to issue to the Contribution Consideration Recipients 2,000,000 shares of the Contingent Stock Consideration; (b) in the event GAG, LLC achieves $55,000 in Adjusted EBITDA (as defined in the Purchase Agreement) for the fiscal year ending December 31, 2010, then the Company will be obligated to issue to the Contribution Consideration Recipients 2,000,000 shares of the Contingent Stock Consideration; and (c) in the event GAG, LLC achieves $65,000 in Adjusted EBITDA (as defined in the Purchase Agreement) for the fiscal year ending December 31, 2011, then the Company will be obligated to issue to the Contribution Consideration Recipients 2,000,000 shares of the Contingent Stock Consideration; provided; however, that if the Company does not achieve the December 31, 2010 Adjusted EBITDA target but does achieve the December 31, 2011 Adjusted EBITDA target, then the Company will be obligated to issue to the Contribution Consideration Recipients 4,000,000 shares of the Contingent Stock Consideration. The Company s issuance of Contingent Stock Consideration will be in accordance with the Purchase Agreement described below. The Company did not achieve the Adjusted EBITDA target for the year ending December 31, 2009, the twelve months ended March 31, 2010, or the twelve months ended June 30, 2010.

The Contingent Stock Consideration will be issued to each of the Contribution Consideration Recipients to the extent earned and with respect to the applicable target period, in three equal installments, beginning on the first anniversary of the closing of the Acquisition and issuable on each anniversary of the closing of the Acquisition thereafter in accordance with the Purchase Agreement.

Basis of Presentation and Accounting Treatment of the Merger

Immediately following the consummation of the Acquisition on July 31, 2009, the former shareholders of AAMAC had an approximate 63% voting interest in the Company and the Great American Members had an approximate 37% voting interest in the Company. The Acquisition has been accounted for as a reverse merger accompanied by a recapitalization of the Company. Under this accounting method, GAG, LLC is considered the acquirer for accounting purposes because it obtained effective control of AAMAC as a result of the Acquisition. This determination was primarily based on the following facts: the Great American Members retention of a significant minority voting interest in the Company; the Great American Members appointment of a majority of the members of the Company s initial board of directors; GAG, LLC s operations comprising the ongoing operations of the Company; and GAG, LLC s senior management serving as the senior management of the Company. Under this method of accounting, the recognition and measurement provisions of the accounting guidance for business combinations do not apply and therefore, the Company will not recognize any goodwill or other intangible assets based upon fair value or related amortization expense associated with amortizable intangible assets. Instead, the share exchange transaction utilizes the capital structure of the Company with AAMAC surviving as a subsidiary and the assets and liabilities of GAG, LLC are recorded at historical cost.

In the condensed consolidated statement of operations, the recapitalization of the number of shares of common stock attributable to the Great American Members is reflected retroactive to January 1, 2009. Accordingly, the number of shares of common stock used to calculate the Company s earnings per share for the three and six months ended June 30, 2009 totals 10,560,000 consisting of the number of shares of common stock issued to the Great American Members as consideration for their Contribution.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) LiquidityMatters

Over the past years, the Company s growth has been funded through a combination of profits generated from operations and more recently from proceeds received from AAMAC in connection with the Acquisition. In the quarters ended March 31, 2010 and June 30, 2010, the operating profits generated by the Company s Auction and Liquidation segment have been negatively impacted due to fewer retail liquidation engagements conducted by the Company. As economic conditions and credit markets have improved for retailers, the number of large retail liquidation engagements in the auction and liquidiation industry has decreased from historical levels. These factors, in addition to the interest expense on the $55,617 of subordinated, unsecured promissory notes payable to the Great American Members and Phantom Equityholders, have resulted in the net use of $14,071 of cash from operations during the six months ended June 30, 2010.

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GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except share data)

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 payable to the Great American Members and Phantom Equityholders and the interest rate was reduced from 12.0% per annum to 3.75% per annum. In addition, the maturity date for $46,996 of the $55,617 principal amount outstanding of the subordinated, unsecured promissory notes payable to the Great American Members was extended to July 31, 2018, subject to annual prepayments based upon the Company s cash flow subject to certain limitations as provided in the amendment to the notes payable, including, without limitation, the Company s maintenance of a minimum adjusted cash balance of $20,000. The terms of these amendments to the subordinated promissory notes payable significantly reduce the annual cash required to service this debt.

In addition to amending the subordinated, unsecured promissory notes payable to the Great American Members and Phantom Equityholders, we are evaluating our current business plan to streamline operations to increase operating efficiencies and reduce operating expenses. This review includes an evaluation of the advisability of a strategic realignment of our operating divisions, expense reductions, and a reevaluation of the recent expansion plans which were implemented in 2009 to increase the types of services we offer to our clients and geographic reach of our operations. We expect to complete this review and begin to implement changes during the second half of 2010.

As of June 30, 2010, the Company had approximately $26,493 in unrestricted cash and an outstanding balance under the asset based credit facility in the amount of $8,746. During July 2010, the Company collected approximately $5,563 in advances against customer contracts and paid off the $8,746 outstanding balance on the asset based credit facility. The Company believes that its current cash and cash equivalents, funds available under its asset based credit facility and cash expected to be generated from operating activities will be sufficient to meet its working capital and capital expenditure requirements for at least the next 12 months. The Company continues to monitor its financial performance to ensure sufficient liquidity to fund operations.

(b) Principles of Consolidation and Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) for interim financial information and in accordance with the rules and regulations of the SEC. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements as permitted under applicable rules and regulations. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included. The results of operations for the six months ended June 30, 2010 are not necessarily indicative of the results to be expected for the year ending December 31, 2010.

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

(c) Revenue Recognition

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

Revenues in the Valuation and Appraisal segment are primarily comprised of fees for valuation and appraisal services. Revenues are recognized upon the delivery of the completed services to the related customers and collection of the fee is reasonably assured. Revenues in the Valuation and Appraisal segment also include contractual reimbursable costs which totaled $594 and $664 for the three months ended June 30, 2010 and 2009, respectively, and $1,228 and $1,197 for the six months ended June 30, 2010 and 2009, respectively.

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GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except share data)

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; and (iv) revenues from contractual reimbursable expenses incurred in connection with auction and liquidation contracts. During the three and six months ended June 30, 2010, revenues in the Auction and Liquidation segment also include estimated losses that were accrued at June 30, 2010 on the performance of retail liquidation services engagements where we guarantee a minimum recovery value for goods sold.

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 $435 and $1,322 for the three months ended June 30, 2010 and 2009, respectively, and $3,110 and $2,962 for the six months ended June 30, 2010 and 2009, 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.

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. The amounts and classifications of revenues and expenses subject to collaborative arrangements are as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Revenues	$	$ 2,370	$	$ 32,514
Operating expenses:				

Direct cost of revenues	$	$	15	$	$	288

GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except share data)

(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 two liquidation service contracts represented 28.9% and 17.0% of total revenues during the six months ended June 30, 2009. 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

As a result of the Acquisition, beginning on July 31, 2009, the Company s results of operations are taxed as a C Corporation. Prior to the Acquisition, the Company s operations were organized as a limited liability company, whereby the Company elected to be taxed as a partnership and the income or loss was required to be reported by each respective member on their separate income tax returns. Therefore, no provision for income taxes has been provided in the accompanying condensed consolidated financial statements for periods prior to July 31, 2009.

The unaudited pro forma computation of income tax (benefit) included in the condensed consolidated statements of operations, represents the tax effects that would have been reported had the Company been subject to U.S. federal and state income taxes as a corporation for the three and six months ended June 30, 2009. Pro forma taxes are based upon the statutory income tax rates and adjustments to income for estimated permanent differences occurring during each period. Actual rates and expenses could have differed had the Company actually been subject to U.S. federal and state income taxes for all periods presented. Therefore, the unaudited pro forma amounts are for informational purposes only and are intended to be indicative of the results of operations had the Company been subject to U.S. federal and state income taxes as a corporation for the three and six months ended June 30, 2009.

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. If it becomes more likely than not that a tax asset will be used, the related valuation allowance on such assets would be reduced.

The Company adopted the provisions of the new accounting guidance for accounting for uncertainty in income taxes on January 1, 2009. The adoption of the new guidance did not have a material impact on the Company s condensed consolidated financial statements.

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GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except share data)

(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 7(a). As of December 31, 2009, the cash collateral for letters of credit and success fees was $459.

(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. The Company s bad debt expense totaled $22 and $0 for the three months ended June 30, 2010 and 2009, respectively, and $45 and $0 for the six months ended June 30, 2010 and 2009, respectively. Bad debt expense is included as a component of selling, general and administrative expenses in the accompanying condensed consolidated statement of operations.

(j) Goods Held for Sale or Auction

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

(k) Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets. Property and equipment held under capital leases are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Property and equipment under capital leases are stated at the present value of minimum lease payments. Depreciation and amortization expense was $195 and $151 for the three months ended June 30, 2010 and 2009, respectively, and $375 and $293 for the six months ended June 30, 2010 and 2009, respectively.

(l) Goodwill and Other Intangible Assets

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

Goodwill includes (i) the excess of the purchase price over the fair value of net assets acquired in a business combination described in Note 6 and (ii) an increase for the subsequent acquisition of noncontrolling interests during the year ended December 31, 2007 (also see Note 6). The Codification requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment). Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value. The Company operates two reporting units, which are the same as its reporting segments described in Note 16. Significant judgment is required to estimate the fair value of reporting units which includes estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment.

The Company reviewed its reporting units for possible goodwill impairment by comparing the fair values of each of the reporting units to the carrying value of their respective net assets. If the fair values exceed the carrying values of the net assets, no goodwill impairment is deemed to exist. If the fair values of the reporting units do not exceed the carrying values of the net assets, goodwill is tested for impairment and written down to its implied value if it is determined to be impaired. Based on a review of the fair value of the reporting units, no impairment is deemed to exist as of December 31, 2009.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except share data)

In accordance with the Codification, the Company reviews the carrying value of its amortizable intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the asset or asset group, if any, exceeds its fair market value. No impairment was deemed to exist as of December 31, 2009.

(m) Fair Value Measurements

On January 1, 2008, the Company adopted the new accounting guidance for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Codification defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Codification also establishes a framework for measuring fair value and expands disclosures about fair value measurements. The new accounting guidance delayed the effective date for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis until fiscal years beginning after November 15, 2008.

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

The Company records mandatorily redeemable noncontrolling interests that were issued after November 5, 2003 at fair value (see Note 13(a)) with fair value determined in accordance with the Codification. The table below presents information about the Company s mandatorily redeemable noncontrolling interests that are measured at fair value on a recurring basis as of June 30, 2010 and December 31, 2009 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.

GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except share data)

The following tables present information on the liabilities measured and recorded at fair value on a recurring basis as of June 30, 2010 and December 31, 2009.

		Financial Assets Measured at Fair Value on a Recurring Basis at June 30, 2010, Using		
	Fair Value at June 30, 2010	Quoted prices in active markets for idential assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	$ 2,380	$	$	$ 2,380
Total liabilities measured at fair value	$ 2,380	$	$	$ 2,380

		Financial Assets Measured at Fair Value on a Recurring Basis at December 31, 2009, Using		
	Fair Value at December 31, 2009	Quoted prices active markets for idential assets (Level 1)	observable inputs (Level 2)	unobservable inputs (Level 3)
Mandatorily redeemable noncontrolling interests issued after November 5, 2003	$ 2,361	$	$	$ 2,361
Total liabilities measured at fair value	$ 2,361	$	$	$ 2,361

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 receivable-related party, notes payable (including credit lines used to finance liquidation engagements), long-term debt and capital lease obligations approximate fair value because the contractual interest rates or effective yields of such instruments are consistent with current market rates of interest for instruments of comparable credit risk. The adoption of the new accounting guidance for fair value measurements did not have a material impact on the Company s condensed consolidated financial statements.

(n) Recent Accounting Pronouncements

In January 2010 the FASB issued ASU 2009-16, *Accounting for Transfers of Financial Assets (FASB Statement No. 166, Accounting for Transfers of Financial Assets)*, or ASU 2009-16, which eliminates the concept of a qualifying special-purpose entity (QSPE), revises conditions for reporting a transfer of a portion of a financial asset as a sale (e.g., loan participations), clarifies the derecognition criteria, eliminates special guidance for guaranteed mortgage securitizations, and changes the initial measurement of a transferor s interest in transferred financial assets. ASU 2009-16 is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2009. We adopted the provisions of this ASU effective January 1, 2010, which did not have a material impact on our financial statements.

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GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except share data)

NOTE 4 ACCOUNTS RECEIVABLE

The components of accounts receivable net include the following:

	June 30, 2010	December 31, 2009
Accounts receivable not subject to factoring agreement	$ 1,038	$ 931
Unbilled receivables	346	995
Amounts due from factor	537	720
Total accounts receivable	1,921	2,646
Allowance for doubtful accounts	(6)	(18)
Accounts receivable, net	$ 1,915	$ 2,628

Additions and changes to the allowance for doubtful accounts consists of the following

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Balance, beginning of period	$ 30	$ 82	$ 18	$ 82
Add: Additions to reserve	22		45	
Less: Write-offs	(46)	(40)	(57)	(40)
Less: Recoveries				
Balance, end of period				