

Alternative Asset Management Acquisition Corp.  
Form 10-K  
March 31, 2008

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

**For the fiscal year ended December 31, 2007**

or

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**

Commission file number 001-33629

**ALTERNATIVE ASSET MANAGEMENT ACQUISITION CORP.**

(Exact Name of Registrant as Specified in Its Charter)

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

**20-8450938**  
(I.R.S. Employer  
Identification No.)

**590 Madison Avenue, 35<sup>th</sup> Floor, New York, N.Y. 10022**  
(Address of Principal Executive Offices) (Zip Code)

**(212) 409-2434**  
(Registrant's Telephone Number, Including Area Code)

**N/A**  
Former Name, Former Address and Former Fiscal year, if Changed Since Last Report

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Units, each consisting of one share of Common Stock, \$0.0001 par value	
per share, and one Warrant	American Stock Exchange
Common Stock, included in the Units	American Stock Exchange
Warrants, included in the Units	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

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

Yes ☒ No ☐

The registrant consummated its initial public offering of units, each consisting of one share of the registrant's common stock and one warrant exercisable for an additional share of common stock, on August 7, 2007. As a result, there was no aggregate market value of the registrant's voting or non-voting equity held by non-affiliates of the registrant as of June 30, 2007. The aggregate market value of the voting or non-voting equity held by non-affiliates of the registrant computed by reference to the closing sales price for the registrant's common stock on September 28, 2007 of \$8.82, as reported on the American Stock Exchange, was approximately \$365,148,000. In determining the market value of the voting or non-voting equity held by non-affiliates, securities of the registrant beneficially owned by directors and officers of the registrant have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 28, 2008 there were 51,750,000 shares of common stock, par value \$.0001 per share, issued and outstanding.

Documents Incorporated by Reference: None.

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### Forward-Looking Statements

*This report and the information incorporated by reference in it, include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Our forward-looking statements include, but are not limited to, statements regarding our expectations, hopes, beliefs, intentions or strategies regarding the future. They may also include statements about our pending business combination with Halcyon Asset Management LLC and affiliated entities (collectively, Halcyon). In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words anticipate, believe, continue, could, estimate, expect, intend, may, might, plan, possible, potential, predict, project, should, would and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking. Forward-looking statements in this report may include, for example, statements about our:*

- Ability to complete a business combination with Halcyon or one or more other target businesses;
- Success in retaining or recruiting, or changes required in, our management or directors following a business combination;
- Potential inability to obtain additional financing to complete a business combination;
- Limited pool of prospective target businesses;
- Potential change in control if we acquire one or more target businesses for stock;
- Our public securities potential liquidity and trading;
- The delisting of our securities from the American Stock Exchange or an inability to have our securities listed on the American Stock Exchange following a business combination;
- Use of proceeds not in trust or available to us from interest income on the trust account balance; or
- Financial performance.

*The forward-looking statements contained or incorporated by reference in this report are based on our current expectations and beliefs concerning future developments and their potential effects on us and speak only as of the date of such statement. There can be no assurance that future developments affecting us will be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, those factors described under the heading Risk Factors. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.*

*References in this report as to we, us or our Company refer to Alternative Asset Management Acquisition Corp. References to public stockholders refer to holders of shares of common stock sold as part of the units in our initial public offering, including any of our stockholders existing prior to the initial public offering to the extent that they purchased or acquired such shares.*

### PART I

This Annual Report on Form 10-K was prepared and relates to the Company as of December 31, 2007. Since that date there has been a Subsequent Event in which the Company has entered into a purchase agreement on March 12, 2008 with the Halcyon Parties, as defined below. An announcement of the business combination was made on Thursday, March 13, 2008 in a Current Report on Form 8-K. A subsequent Current Report on Form 8-K, including all related exhibits, was filed on March 17, 2008.

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When reading this Form 10-K, please note that most references are to the Company as it existed prior to the March 12, 2008 purchase agreement. Whether or not the proposed business combination is consummated may have a material impact on the Company. Disclosures related to such impact will be included in the Company's proxy statement soliciting stockholder approval that will be filed with the Securities and Exchange Commission.

### Item 1. Business

#### General

We are a blank check company, formed on January 26, 2007, to acquire through a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses or assets in the alternative asset management sector or a related business, which we refer to as our business combination. We intend to effect this business combination using cash from the proceeds of our recently completed initial public offering and the private placements of our sponsors' warrants, our capital stock, debt or a combination of cash, stock and debt.

The registration statement for our initial public offering was declared effective on August 1, 2007. On August 7, 2007 we sold 41,400,000 units, including 5,400,000 units pursuant to the underwriters' over-allotment option, at the offering price of \$10.00 per unit and received net proceeds of \$397,560,377. Pursuant to a sponsors' warrants securities purchase agreement dated July 6, 2007, our sponsors, Hanover Overseas Limited, STC Investment Holdings LLC, Solar Capital, LLC, Jakal Investments LLC, Mark Klein and Steven Shenfeld, purchased from us, in the aggregate, 4,625,000 sponsors' warrants for \$4,625,000. The purchase and issuance of the sponsors' warrants occurred simultaneously with the consummation of our initial public offering on a private placement basis.

Approximately \$402.43 million of the proceeds from our initial public offering (including proceeds from the exercise by the underwriters of their over-allotment option and after deducting offering costs paid of \$16,439,623) and sale of the sponsors' warrants was placed in a trust account upon completion of our initial public offering. Of those proceeds, approximately \$13.5 million is attributable to the portion of the underwriters' discount which has been deferred until the consummation of a business combination. The proceeds will be held in the trust account and will be part of the funds distributed to our public stockholders in the event we are unable to complete a business combination.

Except as described below, proceeds in the trust account will not be released until the earlier of completion of our initial business combination or our liquidation. Unless and until an initial business combination is consummated, proceeds held in the trust account will not be available for our use for any purpose, except that (i) up to \$3,500,000 of the interest accrued on the amounts held in the trust account (net of tax, if any, payable by the Company with respect to such interest) may be released to us to fund expenses related to investigating and selecting a target business or businesses and our other working capital requirements and (ii) any additional amounts needed to pay income or other tax obligations, provided, however, that the aggregate amount of all such distributions for working capital and tax payments shall not exceed the total interest income earned on the trust account.

Under the terms of our amended and restated certificate of incorporation, we have until August 1, 2009 to complete an initial business combination.

For a more complete discussion of our financial information, please see the section appearing elsewhere in this Annual Report on Form 10-K entitled "Financial Statements and Supplementary Data."

#### Recent Developments

##### *Purchase Agreement with the Halcyon Parties*

On March 12, 2008 we entered into a purchase agreement (the "Purchase Agreement") pursuant to which we have agreed to acquire a majority interest in a newly formed entity which will own all of the management and fee generating

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entities affiliated with Halcyon Asset Management, LLC, a global alternative asset management firm with approximately \$11.5 billion in assets under management ( "Halcyon"). The combined company will be named Halcyon Management Inc.

We intend to file a preliminary proxy statement with the Securities and Exchange Commission (the "SEC") with respect to this proposed business combination with Halcyon. As of the date of the filing of this Form 10-K, neither the preliminary proxy statement nor the definitive proxy statement have been filed with the SEC or disseminated to stockholders. We have summarized the terms of the transaction below.

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Investors are urged to review the preliminary proxy statement and definitive proxy statement, when completed, in their entirety. A more complete description of the transactions described below, including exhibits related thereto such as the Purchase Agreement, is included in a Form 8-K filed on March 13, 2008 and a Form 8-K filed on March 17, 2008. We intend to schedule a stockholder meeting following completion of the proxy statement.

The parties to the Purchase Agreement are:

- Alternative Asset Management Acquisition Corp., a Delaware corporation ( AAMAC );
- Halcyon Management Group LLC ( Halcyon );
- Halcyon Partners LP (the Partner Vehicle ); and
- Halcyon Asset Management LLC, Halcyon Offshore Asset Management LLC, Halcyon Structured Asset Management LP, Halcyon Asset-Backed Advisors LP and Halcyon Loan Investors LP (together with Halcyon and the Partner Vehicle the Halcyon Parties ).

At the closing and subject to certain adjustments as described below, we will pay the Partner Vehicle for 49,170,000 Class A Units of Halcyon:

- \$390 million cash; and
- 46,924,648 shares of Series A Voting Preferred Stock of AAMAC, \$0.0001 par value per share ( Preferred Shares ).

In addition, pursuant to a certain Exchange and Support Agreement to be prepared by the parties prior to closing, the 46,924,648 Class B Units of Halcyon held by the Partner Vehicle will become exchangeable for an equal number of shares of AAMAC common stock, subject to certain vesting and transfer restrictions.

Prior to the closing, Halcyon will be recapitalized to own all the interests in its affiliates (subject to certain exceptions) and in connection therewith Halcyon will issue to the Partner Vehicle a note with a principal amount of \$115,000,000, payable in five equal annual installments, beginning on the first anniversary of the closing of the proposed acquisition, and accruing interest at 9.0% per year, calculated on the basis of a 365-day year, and payable at the end of each calendar quarter (the Halcyon Note ).

The purchase price paid to the Partner Vehicle will be subject to possible closing and post-closing adjustments, including the issuance of additional Preferred Shares and Class B Units of Halcyon to the Partner Vehicle upon the achievement of certain price per share targets within five years of closing. In addition, in the event of a shortfall in the amount of cash available to AAMAC at the time of the closing, the Partner Vehicle has the option to either increase the amount of the Halcyon Note to up to \$150,000,000 or receive additional Preferred Shares and Class B Units of Halcyon.

### Alternative Asset Management Industry

Since our initial public offering, we have been focusing our efforts on identifying prospective target businesses in the alternative asset management sector or a related business. A business related to the alternative asset management sector means a business providing services or products with respect to the alternative asset management sector, including services to alternative asset management businesses or to investors in alternative asset management businesses in their capacities as such investors. Such related business could include back-office administrative services, information technology service providers and advisory and administrative service providers to high-net worth families and investors, third-party marketers and family offices. Businesses in the alternative asset management sector are commonly referred to by such categories as hedge funds, private equity funds or real estate funds, among others. Alternative asset management portfolios typically include a significant performance fee component and measure success in terms of absolute returns rather than comparisons to benchmark indices.

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The asset management industry is a multi-trillion dollar business, based on assets under management, focused on the management of investments on behalf of investors in exchange for a contracted fee. The asset management industry can be broadly divided into two categories: traditional asset management, and alternative asset management.

Traditional asset management, in general, involves managing portfolios of actively traded equity, fixed income and/or derivative securities. The investment objectives of such portfolios may include total return, capital appreciation, current income and/or replicating the performance of a specific index. Such portfolios may include investment companies registered under the Investment Company Act of 1940 (*e.g.*, mutual funds, closed-end funds or exchange-traded funds) or separate accounts managed on behalf of individuals or institutions. Managers of such portfolios are compensated, in general, on a monthly or quarterly basis, at a contracted fee based on the assets under management, generally without regard to performance of the investments held in the portfolio. Managers of such portfolios, in the United States, are typically registered with the SEC

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under the Investment Advisers Act of 1940.

Alternative asset management, in general, involves managing portfolios using a variety of investment strategies where the common element is the manager's goal of delivering investment performance on an absolute return basis within certain predefined risk parameters. These investment returns tend to have a lower correlation to the broader market than do traditional asset management strategies. Alternative asset management portfolios may be held through funds organized as limited partnerships, or other business forms, separate accounts managed on behalf of individuals or institutions, or investment companies registered under the Investment Company Act of 1940 (e.g., business development companies). Alternative asset management businesses are typically exempt from registration with regulatory authorities. Such businesses in the United States may or may not be registered with the SEC under the Investment Advisers Act of 1940, depending upon certain factors, such as the registration status of such portfolios under the Investment Company Act of 1940, the number of clients of the adviser and the amount of assets under the adviser's management. Alternative asset management portfolios are commonly referred to by such categories as hedge funds, private equity funds or real estate funds, among others. The commonality across nearly all alternative asset management portfolios is that the fee arrangements typically include a significant performance fee (incentive income) component and that investor expectations are often framed in terms of absolute returns, rather than returns which are measured in relation to benchmark indices.

We believe we have many competitive advantages over other entities with business objectives similar to ours. We believe our structure makes us an attractive business combination partner to potential target businesses in the alternative asset management industry. As an existing public company, we offer a target business an alternative to the traditional initial public offering process through a merger or other business combination. As proposed by the Purchase Agreement, the owners of the target business could exchange their shares of stock in the target business for shares of our stock, becoming a public company.

With a trust account initially in the amount of approximately \$402.4 million, we offer a target business a variety of options such as providing the owners of a target business with shares in a public company and a public means to sell such shares, providing capital for the potential growth and expansion of its operations or strengthening its balance sheet by reducing its debt ratio. Because we believe we can consummate an initial business combination using our cash, debt or equity securities, or a combination of the foregoing, we believe we have the flexibility to use the most efficient combination that will allow us to tailor the consideration to be paid to the target business to fit its needs and desires. However, we have not taken any steps to secure third party financing and there can be no assurance it will be available to us.

Our management team has extensive experience in the alternative asset management industry. In 2001 Michael J. Levitt, our Chairman of the Board, founded Stone Tower Capital LLC, an asset management firm focused on credit and credit-related assets. Through its affiliates, Stone Tower managed at December 31, 2007 approximately \$15 billion in leveraged finance-related assets across several structured finance and hedge fund vehicles. At December 31, 2007, Stone Tower had 75 employees including 33 investment professionals. Stone Tower's objective is to generate stable and consistent returns for its investors which include domestic and international banking institutions, insurance companies, pension funds, institutional money management firms, family offices and high net-worth individuals.

Mark D. Klein, our Chief Executive Officer, President and a Director is an investment banker and the Chief Executive Officer of Hanover Group US LLC, a US subsidiary of the Hanover Group Limited, which together with its subsidiaries we refer to as the Hanover Group. The Hanover Group provides a broad range of financial solutions to businesses in New Zealand, Australia, the United Kingdom and North America. The Hanover Group has expanded through organic growth and acquisition to become one of New Zealand's leading strategic investment companies and is New Zealand's largest privately owned financial services group. Through its subsidiaries the Hanover Group provides fixed income investments, finance, asset management, public funds management product, and in-house private equity both in New Zealand and internationally. The predominant focus of the Hanover Group's portfolio is property development and property related transactions (including residential development, subdivision, land banks, commercial and tourism related

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developments as well as agricultural conversions, and residential, commercial and mixed-use property investment). The Hanover Group has over approximately \$870 million of investor funds under management, approximately \$975 million of consolidated assets and shareholder equity in excess \$100 million and services over 40,000 retail investors. The Hanover Group is headquartered in New Zealand, and has offices in New Zealand, Australia, United Kingdom and North America.

We have leveraged the industry experience of our executive officers by focusing our efforts on identifying a prospective target business in the asset management industry. We believe that companies involved in this industry represent attractive acquisition targets for a number of reasons, including a favorable economic environment, potentially attractive valuations and the large number of middle market acquisition candidates.

### Effecting a business combination

#### *General*

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We are not presently engaged in and we may not engage in any operations if and until we consummate an initial business combination. We intend to utilize the cash proceeds of our initial public offering and the private placement of the sponsors' warrants, our capital stock, debt or a combination of these as the consideration to be paid in an initial business combination. While substantially all of the net proceeds of our initial public offering and the private placement of the sponsors' warrants are allocated to completing an initial business combination, the proceeds are not otherwise designated for more specific purposes. Accordingly, at the time of their investment, investors were not provided an opportunity to evaluate the specific merits or risks of one or more target businesses. If we engage in an initial business combination with a target business using our capital stock and/or debt financing as the consideration to fund the initial business combination, proceeds from our initial public offering and the private placement of the sponsors' warrants may then be used to undertake additional acquisitions or to fund the operations of the target business on a post-combination basis. If our proposed business combination with Halcyon is not completed, we may seek to effect an initial business combination with more than one target business, although our limited resources may serve as a practical limitation on our ability to do so.

In our search for a target business, we have sought and will continue to seek to have all vendors, prospective target businesses or other entities, which we refer to as potential contracted parties or a potential contracted party, that we engage, execute agreements with us waiving any right, title, interest or claim of any kind in or to any monies held in the trust account for the benefit of our public stockholders. In the event that a potential contracted party refuses to execute such a waiver, we will execute an agreement with that entity only if our management first determines that we would be unable to obtain, on a reasonable basis, substantially similar services or opportunities from another entity willing to execute such a waiver. Examples of instances where we may engage a third party that refused to execute a waiver would be the engagement of a third party consultant whose particular expertise or skills are believed by management to be superior to those of other consultants that would agree to execute a waiver or a situation in which management does not believe it would be able to find a provider of required services willing to provide the waiver. If a potential contracted party refuses to execute such a waiver, then Mark D. Klein and Paul D. Lapping, our Chief Executive Officer and President and our Chief Financial Officer, Treasurer and Secretary, respectively, will be personally liable to cover the potential claims made by such party for services rendered and goods sold, in each case to us in the event that we liquidate. However, the agreement entered into by Messrs. Klein and Lapping specifically provides for two exceptions to this indemnity; there will be no liability (1) as to any claimed amounts owed to a third party who executed a waiver (even if such waiver is subsequently found to be invalid and unenforceable) or (2) as to any claims under our indemnity of the underwriters of our initial public offering against certain liabilities, including liabilities under the Securities Act. However, there is no guarantee that vendors, prospective target businesses or other entities will execute such waivers, or even if they execute such waivers that they would be prevented from bringing claims against the trust account, including but not limited to fraudulent inducement, breach of fiduciary responsibility and other similar claims, as well as claims challenging the enforceability of the waiver, in each case in order to seek recourse against our assets, including the funds held in the trust account. Further, we could be subject to claims from parties not in contract with us who have not executed a waiver, such as a third party claiming tortious interference as a result of our initial business combination. In addition, the indemnification provided by Messrs. Klein and Lapping is limited to claims by vendors that do not execute such waivers as described above. Claims by target businesses or other entities and vendors that execute such agreements would not be indemnified by Messrs. Klein and Lapping. Based on representations made to us by Messrs. Klein and Lapping, we currently believe that each of them has substantial means and is capable of funding a shortfall in our trust account to satisfy their foreseeable indemnification obligations, but we have not asked either of them for any security or funds for such an eventuality. Despite our belief, we cannot assure you Messrs. Klein and Lapping will be able to satisfy those obligations. The indemnification obligations may be substantially higher than they currently foresee or expect and/or their financial resources may deteriorate in the future. As a result, the steps outlined above may not effectively mitigate the risk of creditors claims reducing the amounts in the trust account.

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Subject to the requirement that a target business or businesses have a collective fair market value of at least 80% of the balance in the trust account (excluding deferred underwriting discounts and commissions of approximately \$13.5 million) at the time of our initial business combination, we have virtually unrestricted flexibility in identifying and selecting one or more prospective target businesses. Although our management has and will continue to assess the risks inherent in a particular target business with which we may combine, we cannot assure you that this assessment will result in our identifying all risks that a target business may encounter. Furthermore, some of those risks may be outside of our control, meaning that we can do nothing to control or reduce the chances that those risks will adversely impact a target business.

### *Sources of target businesses*

Potential target business candidates have and will be brought to our attention from various unaffiliated sources, including investment bankers, venture capital funds, private equity funds, leveraged buyout funds, management buyout funds and other members of the financial community. Potential target businesses have been brought to our attention by such unaffiliated sources as a result of being solicited by us through calls or mailings. These sources have also introduced us to target businesses they think we may be interested in on an unsolicited basis, since many of these sources have read our prospectus and know what types of businesses we are targeting. Our officers and directors, as well as their affiliates, have also brought to our attention target business candidates that they became aware of through their business contacts as a result of formal or informal inquiries or discussions. While we have not and do not presently anticipate engaging the services of professional firms or other individuals that specialize in business acquisitions on any formal basis, we may engage these firms or other individuals in the future, in which event we may pay a finder's fee, consulting fee or other compensation to be determined in an arm's length negotiation based on the terms

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of the transaction. Payment of finder's fees is customarily tied to completion of a transaction, in which case any such fee will be paid out of the funds held in the trust account. Although it is possible that we may pay finder's fees in the case of an uncompleted transaction, we consider this possibility to be extremely remote. In no event, however, will any of our initial stockholders, sponsors, officers or directors, or any of their respective affiliates, be paid any finder's fee, consulting fee or other compensation prior to, or with respect to the initial business combination (regardless of the type of transaction that it is). In connection with our proposed business combination with Halcyon, we have each agreed not to solicit alternative acquisition proposals or enter into any negotiation or agreement with respect to alternative proposals until the business combination is consummated or the Purchase Agreement is terminated. We will not enter into an initial business combination with a target business that is affiliated with any of our officers, directors, initial stockholders or sponsors, including any entity that has received a material financial investment from our initial stockholders or sponsors or any entity affiliated with our officers, directors, initial stockholders or sponsors.

### *Selection of a target business and structuring of a business combination*

In addition to the requirement that our initial business combination must be with a target business or businesses with a collective fair market value that is at least 80% of the balance in the trust account (excluding deferred underwriting discounts and commissions) at the time of such initial business combination and that the target business be in the alternative asset management sector or a related business, we will only consummate an initial business combination in which we become the controlling shareholder of the target. The key factor that we will rely on in determining controlling shareholder status would be our acquisition of at least 51% of the voting equity interests of the target company. We will not consider any transaction that does not meet such criteria.

We have not established any other specific attributes, criteria (financial or otherwise) or guidelines for prospective target businesses. In evaluating prospective target businesses, our management considered a variety of factors, including one or more of the following:

- financial condition and results of operations;
- growth potential;
- brand recognition and potential;
- experience and skill of management and availability of additional personnel;
- with respect to asset management businesses, historical investment performance of product and growth of assets under management;
- capital requirements;
- stage of development of the business and its products or services;

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- existing distribution arrangements and the potential for expansion;
- degree of current or potential market acceptance of the products or services;
- impact of regulation on the business;
- costs associated with effecting the initial business combination; and
- industry leadership, sustainability of competitive position and attractiveness of product offerings of target businesses.

These criteria are not intended to be all-inclusive. If the proposed business combination with Halcyon is not completed, we may enter into an alternative initial business combination with a target business that does not meet these criteria or guidelines. Any evaluation relating to the merits of a particular business combination may be based, to the extent relevant, on the above factors as well as other considerations deemed relevant by our management to our business objective. In evaluating a prospective target business, we have and will continue to conduct an extensive due diligence review which will encompass, among other things, meetings with incumbent management and employees, document reviews, as well as review of financial and other information which will be made available to us. Even if we conduct extensive due diligence on a target business with which we combine, we cannot assure you that this diligence will surface all material issues that may affect the applicable target business, or that factors outside the control of the target business and outside of our control will not later arise. If our diligence fails to identify issues specific to a target business, industry or the environment in which the target business operates, we may be forced to later write-down or write-off assets, restructure our operations or incur impairment or other charges that could result in our reporting losses. Even though these charges may be non-cash items and may not have an immediate impact on our liquidity, the fact that we report charges of this nature could contribute to negative market perceptions about us or our securities. In addition, charges of this nature may cause us to violate net worth or other covenants to which we may be subject as a result of assuming pre-existing debt held by a target business or by virtue of our obtaining post-combination debt financing.

The time required to select and evaluate a target business and to structure and complete the initial business combination, and the costs associated with this process, are not currently ascertainable with any degree of certainty. Any costs incurred with respect to the identification and evaluation of a prospective target business with which an initial business combination is not ultimately completed will result in our incurring losses and will reduce the funds we can use to complete another business combination.



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### *Fair Market Value of Target Business*

The initial target business or businesses with which we combine must have a collective fair market value equal to at least 80% of the balance in the trust account (excluding deferred underwriting discounts and commissions of approximately \$13.5 million) at the time of such initial business combination. If we acquire less than 100% of one or more target businesses in our initial business combination, the aggregate fair market value of the portion or portions we acquire must equal at least 80% of the balance in the trust account (excluding deferred underwriting discounts and commissions as described above) at the time of such initial business combination. The fair market value of a portion of a target business will be calculated by multiplying the fair market value of the entire business by the percentage of the target we acquire. We may seek to consummate an initial business combination with an initial target business or businesses with a collective fair market value in excess of 80% of the balance in the trust account. However, we would likely need to obtain additional financing to consummate such an initial business combination and have not taken any steps to obtain any such financing. We will not combine with a target business or businesses unless the fair market value of such entity or entities meets a minimum valuation threshold of 80% of the amount in the trust account (excluding deferred underwriting discounts and commissions of approximately \$13.5 million).

The fair market value of a target business or businesses will be determined by our board of directors based upon one or more standards generally accepted by the financial community (such as actual and potential sales, the values of comparable businesses, earnings and cash flow and/or book value). If our board is not able to independently determine that the target business has a sufficient fair market value to meet the threshold criterion, we will obtain an opinion from an unaffiliated, independent investment banking firm which is a member of the Financial Industry Regulatory Authority with respect to the satisfaction of such criterion. We expect that any such opinion would be included in our proxy soliciting materials furnished to our stockholders in connection with an initial business combination, and that such independent investment banking firm will be a consenting expert. We will not be required to obtain an opinion from an investment banking firm as to the fair market value of the business if our board of directors independently determines that the target

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business or businesses has sufficient fair market value to meet the threshold criterion. Furthermore, we will not be required to obtain an opinion as to whether our initial business combination is fair to our public stockholders. Our board will make its decision with respect to an acquisition consistent with its fiduciary obligations to all stockholders and, consequently, will consider those factors concerning the proposed business combination that it deems relevant in reaching an informed decision.

Our board of directors has determined that the fair market value of the portion of Halcyon that we will acquire in the proposed business combination is at least equal to 80% of the balance in our trust account (excluding deferred underwriting discounts and commissions). Furthermore, our board of directors received an opinion from Jefferies Putnam Lovell that as of the date thereof and based upon and subject to the assumptions, qualifications and limitations set forth therein, the consideration to be paid by us in the proposed business combination is fair to us from a financial point of view and that the fair market value of the Class A interests in Halcyon to be purchased by us is at least 80% of the balance in our trust account (excluding deferred underwriting discounts and commissions).

### *Possible lack of business diversification*

Our initial business combination must be with one or more target businesses whose collective fair market value is at least equal to 80% of the balance in the trust account (excluding deferred underwriting discounts and commissions of approximately \$13.5 million) at the time of such business combination, as discussed above. Consequently, we expect to complete only a single business combination, although this may entail a simultaneous combination with one or more businesses or assets at the same time. At the time of our initial business combination, we may not be able to acquire more than one target business because of various factors, including complex accounting or financial reporting issues. For example, we may need to present pro forma financial statements reflecting the operations of several target businesses as if they had been combined historically.

A simultaneous combination with several target businesses also presents logistical issues such as the need to coordinate the timing of negotiations, proxy statement disclosure and closings. In addition, if conditions to closings with respect to one or more of the target businesses are not satisfied, the fair market value of the business could fall below the required fair market value threshold of 80% of the balance in the trust account (excluding deferred underwriting discounts and commissions of approximately \$13.5 million).

Accordingly, while it is possible that we may attempt to effect our initial business combination with more than one target businesses in the event the proposed business combination with Halcyon is not consummated, we are more likely to choose a single target business if all other factors appear equal. This means that for an indefinite period of time, the prospects for our success may depend entirely on the future performance of a single business. Unlike other entities that have the resources to complete business combinations with multiple entities in one or several industries, it is probable that we will not have the resources to diversify our operations and mitigate the risks of being in a single line of business. By consummating an initial business combination with only a single entity, our lack of diversification may subject us to negative

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economic, competitive and regulatory developments, any or all of which may have a substantial adverse impact on the particular industry in which we operate after an initial business combination.

### *Limited ability to evaluate the target business management*

Although we have and intend to continue to scrutinize the management of a prospective target business when evaluating the desirability of effecting a business combination, including the proposed business combination with Halcyon, we cannot assure you that our assessment of the target business management will prove to be correct. In addition, we cannot assure you that the future management will have the necessary skills, qualifications or abilities to manage a public company. While it is possible that one or more of our executive officers or directors will remain associated in some capacity with us following a business combination, it is unlikely that any of them will devote their full efforts to our affairs subsequent to a business combination. Our current officers and directors would only be able to remain with the company after the consummation of a business combination if they are able to negotiate employment or consulting agreements in connection with the business combination. Such negotiations would take place simultaneously with the negotiation of the business combination and could provide for such individuals to receive compensation in the form of cash payments and/or our securities for services they would render to the company after the consummation of the business combination. While the personal and financial interests of such individuals may influence their motivation in identifying and selecting a target business, the ability of such individuals to remain with the company after the consummation of a business combination will not be the determining factor in our decision as to whether or not we will proceed with any potential business combination. However, to the extent that these considerations are a factor in our decision, it will pose potential conflicts of interest. Additionally, we cannot assure you that our officers and directors will have significant experience or knowledge relating to the operations of the particular target business.

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Following a business combination, we may seek to recruit additional managers to supplement the incumbent management of the target business. We cannot assure you that we will have the ability to recruit additional managers, or that the managers we hire will have the requisite skills, knowledge or experience necessary to enhance the incumbent management.

### *Opportunity for stockholder approval of business combination*

Prior to the completion of an initial business combination, we will submit the transaction to our stockholders for approval, even if the nature of the acquisition is such as would not ordinarily require stockholder approval under applicable state law. In connection with any such transaction, we will also submit to our stockholders for approval a proposal to amend our amended and restated certificate of incorporation to provide for our corporate life to continue perpetually following the consummation of such business combination. Any vote to extend our corporate life to continue perpetually following the consummation of an initial business combination will be taken only if the initial business combination is approved. We will only consummate an initial business combination if stockholders vote both in favor of such business combination and our amendment to extend our corporate life.

In connection with seeking stockholder approval of an initial business combination, we will furnish our stockholders with proxy solicitation materials prepared in accordance with the Securities Exchange Act of 1934, as amended, which, among other matters, will include a description of the operations of the target business and audited historical financial statements of the business.

In connection with the vote required for our initial business combination, all of our initial stockholders, including all of our officers and directors, have agreed to vote their founders common stock in accordance with the majority of the shares of common stock voted by the public stockholders. This voting arrangement shall not apply to shares included in units purchased in our initial public offering or shares purchased following our initial public offering in the open market by any of our initial stockholders, sponsors, officers or directors, including any shares purchased by Hanover Overseas Limited, STC Investment Holdings LLC and Solar Capital, LLC, under agreements with Citigroup Global Markets Inc., in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, pursuant to which they will each place limit orders for up to \$10.0 million of our common stock, or \$30.0 million in the aggregate during the Buyback Period, commencing on the later of ten business days after we file our Current Report on Form 8-K announcing our execution of a definitive agreement for an initial business combination and 60 days after termination of the restricted period in connection with our initial public offering under Regulation M of the Exchange Act. We filed our Current Report on Form 8-K on March 13, 2008, resulting in a Buyback Period that began on March 28, 2008. Pursuant to the Voting and Support Agreement entered into in connection with the Purchase Agreement, our initial stockholders have agreed to vote all shares acquired by them in the open market, including pursuant to the Rule 10b5-1 plans described above, in favor of the proposed business combination with Halcyon. We will proceed with our initial business combination only if a majority of the shares of common stock voted by the public stockholders present in person or by proxy are voted in favor of our initial business combination and public stockholders owning less than 30% of the shares sold in our initial public offering both exercise their conversion rights and vote against our initial business combination. Our initial stockholders will not be permitted to exercise conversion rights if the initial business combination is approved, as described below. In the event we fail to complete an initial business combination, these stockholders will participate in any liquidation distributions with respect to any shares of common stock purchased by them following consummation of the offering, including shares purchased pursuant to such limit orders.

*Conversion rights*

At the time we seek stockholder approval of any initial business combination, we will offer each public stockholder the right to have such stockholder's shares of common stock converted to cash if the stockholder votes against the initial business combination and the initial business combination is approved and completed. Our initial stockholders will not have such conversion rights with respect to the founders' common stock or any other shares of common stock owned by them, directly or indirectly, including pursuant to the limit orders discussed above.

The actual per-share conversion price will be equal to the aggregate amount then on deposit in the trust account, before payment of deferred underwriting discounts and commissions and including accrued interest, net of any income and franchise taxes on such interest, and net of interest income of up to \$3.5 million previously released to us to fund our working capital requirements (calculated as of two business days prior to the consummation of the proposed initial business combination), divided by the number of shares sold in our initial public offering. The initial per-share conversion price would be approximately \$9.72, or \$0.28 less than the per-unit offering price of \$10.00. As of March 13, 2008, the per-share amount in our trust account was \$9.76, or \$0.24 less than the per-unit offering price of \$10.00.

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An eligible stockholder may request conversion at any time after the mailing to our stockholders of the proxy statement and prior to the vote taken with respect to a proposed initial business combination at a meeting held for that purpose, but the request will not be granted unless the stockholder votes against the initial business combination and the initial business combination is approved and completed. Additionally, we may require public stockholders to tender their certificates to our transfer agent prior to the meeting or to deliver their shares to the transfer agent electronically using the Depository Trust Company's DWAC (Deposit/Withdrawal At Custodian) System. The proxy solicitation materials that we will furnish to stockholders in connection with the vote for any proposed business combination will indicate whether we are requiring stockholders to satisfy such certification and delivery requirements. The requirement for physical or electronic delivery prior to the meeting ensures that a converting holder's election to convert is irrevocable once the business combination is approved.

If we elect to require physical delivery of the share certificates, we would expect that stockholders would have to comply with the following steps. If the shares are held in street name, stockholders must instruct their account executive at the stockholders' bank or broker to withdraw the shares from the stockholders' account and request that a physical certificate be issued in the stockholders' name. Our transfer agent will be available to assist with this process. It is our understanding that stockholders should generally allot at least two weeks to obtain physical certificates from the transfer agent. However, because we do not have any control over this process or over the brokers or DTC, it may take significantly longer than two weeks to obtain a physical stock certificate. No later than the day prior to the stockholder meeting, the stockholder must present written instructions to our transfer agent stating that the stockholder wishes to convert his or her shares into a pro rata share of the trust account and confirming that the stockholder has held the shares since the record date and will continue to hold them through the stockholder meeting and the closing of our business combination. Certificates that have not been tendered in accordance with these procedures by the day prior to the stockholder meeting will not be converted into cash. In the event a stockholder tenders his or her shares and decides prior to the stockholder meeting that he or she does not want to convert his or her shares, the stockholder may withdraw the tender. In the event that a stockholder tenders shares and our business combination is not completed, these shares will not be converted into cash and the physical certificates representing these shares will be returned to the stockholder.

The steps outlined above will make it more difficult for our stockholders to exercise their conversion rights. In the event that it takes longer than anticipated to obtain a physical certificate, stockholders who wish to convert may be unable to obtain physical certificates by the deadline for exercising their conversion rights and thus will be unable to convert their shares.

If a stockholder votes against the initial business combination but fails to properly exercise its conversion rights, such stockholder will not have its shares of common stock converted to its pro rata distribution of the trust account. Any request for conversion, once made, may be withdrawn at any time up to the date of the meeting. Furthermore, if a stockholder delivers his certificate for conversion and subsequently decides prior to the meeting not to elect conversion, he may simply request that the transfer agent return the certificate (physically or electronically). It is anticipated that the funds to be distributed to public stockholders who elect conversion will be distributed promptly after completion of an initial business combination. Public stockholders who convert their stock into their share of the trust account will still have the right to exercise any warrants they still hold.

We will not complete our proposed initial business combination if public stockholders owning 30% or more of the shares sold in our initial offering exercise their conversion rights. The initial conversion price will be approximately \$9.72 per share. As this amount may be lower than the \$10.00 per unit offering price and it may be less than the market price of the common stock on the date of conversion, there may be a disincentive on the part of public stockholders to exercise their conversion rights.

If a vote on an initial business combination is held and the initial business combination is not approved, we may continue to try to consummate an initial business combination with a different target until 24 months from the date of our final prospectus. If the initial business

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combination is not approved or completed for any reason, then public stockholders voting against our initial business combination who exercised their conversion rights would not be entitled to convert their shares of common stock into a pro rata share of the aggregate amount then on deposit in the trust account. Those public stockholders would be entitled to receive their pro rata share of the aggregate amount on deposit in the trust account only in the event that the initial business combination they voted against was duly approved and subsequently completed, or in connection with our liquidation.

### *Liquidation if no business combination*

Our amended and restated certificate of incorporation provides that we will continue in existence only until 24 months from the date of our final prospectus, or August 1, 2009. This provision may not be amended except in connection

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with the consummation of an initial business combination. If we have not completed an initial business combination by such date, our corporate existence will cease except for the purposes of winding up our affairs and liquidating, pursuant to Section 278 of the Delaware General Corporation Law. This has the same effect as if our board of directors and stockholders had formally voted to approve our dissolution pursuant to Section 275 of the Delaware General Corporation Law. Accordingly, limiting our corporate existence to a specified date as permitted by Section 102(b)(5) of the Delaware General Corporation Law removes the necessity to comply with the formal procedures set forth in Section 275 (which would have required our board of directors and stockholders to formally vote to approve our dissolution and liquidation and to have filed a certificate of dissolution with the Delaware Secretary of State). Instead, we will notify the Delaware Secretary of State in writing on the termination date that our corporate existence is ceasing, and include with such notice payment of any franchise taxes then due to or assessable by the state. We view this provision terminating our corporate life by 24 months from the date of our final prospectus as an obligation to our stockholders and will not take any action to amend or waive this provision to allow us to survive for a longer period of time except in connection with the consummation of an initial business combination.

If we are unable to complete an initial business combination by 24 months from the date of our final prospectus, or August 1, 2009, as soon as practicable thereafter, we will adopt a plan of distribution in accordance with Section 281(b) of the Delaware General Corporation Law. Section 278 provides that our existence will continue for at least three years after our expiration for the purpose of prosecuting and defending suits, whether civil, criminal or administrative, by or against us, and of enabling us gradually to settle and close our business, to dispose of and convey our property, to discharge our liabilities and to distribute to our stockholders any remaining assets, but not for the purpose of continuing the business for which we were organized. Our existence will continue automatically even beyond the three-year period for the purpose of completing the prosecution or defense of suits begun prior to the expiration of the three-year period, until such time as any judgments, orders or decrees resulting from such suits are fully executed. Section 281(b) will require us to pay or make reasonable provision for all then-existing claims and obligations, including all contingent, conditional, or unmatured contractual claims known to us, and to make such provision as will be reasonably likely to be sufficient to provide compensation for any then-pending claims and for claims that have not been made known to us or that have not arisen but that, based on facts known to us at the time, are likely to arise or to become known to us within 10 years after such date. Payment or reasonable provision for payment of claims will be made in the discretion of the board of directors based on the nature of the claim and other factors deemed relevant by the board of directors. Claims may be satisfied by direct negotiation and payment, purchase of insurance to cover the claim(s), setting aside money as a reserve for future claims, or otherwise as determined by the board of directors in its discretion. Under Section 281(b), the plan of distribution must provide for all of such claims to be paid in full or make provision for payments to be made in full, as applicable, if there are sufficient assets. If there are insufficient assets, the plan must provide that such claims and obligations be paid or provided for according to their priority and, among claims of equal priority, ratably to the extent of legally available assets. Any remaining assets will be available for distribution to our stockholders. However, because we are a blank check company, rather than an operating company, and our operations will be limited to searching for prospective target businesses to acquire, the only likely claims to arise would be from our vendors and service providers (such as accountants, lawyers, investment bankers, etc.) and potential target businesses. As described below, we will seek to have all vendors, service providers and prospective target businesses execute agreements with us waiving any right, title, interest or claim of any kind they may have in or to any monies held in the trust account. As a result, the claims that could be made against us will be limited, thereby lessening the likelihood that any claim would result in any liability extending to the trust. We therefore believe that any necessary provision for creditors will be reduced and should not have a significant impact on our ability to distribute the funds in the trust account to our public stockholders. Nevertheless, we cannot assure you of this fact as there is no guarantee that vendors, service providers and prospective target businesses will execute such agreements. Nor is there any guarantee that, even if they execute such agreements with us, they will not seek recourse against the trust account. A court could also conclude that such agreements are not legally enforceable. As a result, if we liquidate, the per-share distribution from the trust account could be less than \$9.72 due to claims or potential claims of creditors. We will distribute to all of our public stockholders, in proportion to their respective equity interests, an aggregate sum equal to the amount in the trust account, inclusive of any interest, plus any remaining net assets (subject to our obligations under Delaware law to provide for claims of creditors as described below).

We will notify the trustee of the trust account to begin liquidating such assets promptly after such date and anticipate it will take no more than 10 business days to effectuate such distribution. Our initial stockholders have waived their rights to participate in any liquidation distribution with respect to their founders' common stock. There will be no distribution from the trust account with respect to our warrants, which

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will expire worthless. We will pay the costs of liquidation from our remaining assets outside of the trust account. If such funds are insufficient, Mark D. Klein and Paul D. Lapping have agreed to advance us the funds necessary to complete such liquidation (currently anticipated to be no more than approximately \$15,000) and have agreed not to seek repayment of such expenses.

If we are unable to complete an initial business combination and expend all of the net proceeds of our initial public offering, other than the proceeds deposited in the trust account, and without taking into account interest, if any, earned on the trust account, the initial per-share liquidation price would be \$9.72, or \$0.28 less than the per-unit offering price of \$10.00.

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The per share liquidation price includes approximately \$13.5 million in deferred underwriting discounts and commissions that would also be distributable to our public stockholders.

The proceeds deposited in the trust account could, however, become subject to the claims of our creditors (which could include vendors and service providers we have engaged to assist us in any way in connection with our search for a target business and that are owed money by us, as well as target businesses themselves) which could have higher priority than the claims of our public stockholders. Mark D. Klein and Paul D. Lapping have agreed that they will be personally liable to ensure that the proceeds in the trust account are not reduced by the claims of target businesses or claims of vendors or other entities that are owed money by us for services rendered or contracted for or products sold to us. However, the agreement entered into by Messrs. Klein and Lapping specifically provides for two exceptions to this indemnity; there will be no liability (1) as to any claimed amounts owed to a third party who executed a waiver (even if such waiver is subsequently found to be invalid and unenforceable) or (2) as to any claims under our indemnity of the underwriters of our initial public offering against certain liabilities, including liabilities under the Securities Act. However, in the event that Messrs. Klein and Lapping have liability to us under these indemnification arrangements, we cannot assure you that they will have the assets necessary to satisfy those obligations. Accordingly, the actual per-share liquidation price could be less than \$9.72, plus interest, due to claims of creditors. Additionally, if we are forced to file a bankruptcy case or an involuntary bankruptcy case is filed against us which is not dismissed, the proceeds held in the trust account could be subject to applicable bankruptcy law, and may be included in our bankruptcy estate and subject to the claims of third parties with priority over the claims of our stockholders. To the extent any bankruptcy claims deplete the trust account, we cannot assure you we will be able to return to our public stockholders at least \$9.72 per share.

Our public stockholders will be entitled to receive funds from the trust account only in the event of the expiration of our corporate existence and our liquidation or if they seek to convert their respective shares into cash upon an initial business combination which the stockholder voted against and which is completed by us. In no other circumstances will a stockholder have any right or interest of any kind to or in the trust account.

If we are forced to file a bankruptcy case or an involuntary bankruptcy case is filed against us which is not dismissed, any distributions received by stockholders could be viewed under applicable debtor/creditor and/or bankruptcy laws as either a preferential transfer or a fraudulent conveyance. As a result, a bankruptcy court could seek to recover all amounts received by our public stockholders. Furthermore, because we intend to distribute the proceeds held in the trust account to our public stockholders promptly after 24 months from the date of our final prospectus, this may be viewed or interpreted as giving preference to our public stockholders over any potential creditors with respect to access to or distributions from our assets. Furthermore, our board may be viewed as having breached their fiduciary duties to our creditors and/or may have acted in bad faith, and thereby exposing itself and our company to claims of punitive damages, by paying public stockholders from the trust account prior to addressing the claims of creditors. We cannot assure you that claims will not be brought against us for these reasons.

### *Amended and Restated Certificate of Incorporation*

Our amended and restated certificate of incorporation sets forth certain requirements and restrictions relating to our offering that apply to us until the consummation of an initial business combination. Specifically, our amended and restated certificate of incorporation provides, among other things, that:

- prior to the consummation of an initial business combination, we shall submit such business combination to our stockholders for approval even if the nature of the acquisition is such as would not ordinarily require stockholder approval under applicable state law;
- we may consummate the initial business combination only if approved by a majority of the shares of common stock voted by our public stockholders at a duly held stockholders meeting, and public stockholders owning less than 30% of the shares sold in our initial public offering vote against the initial business combination exercise their conversion rights;
- if an initial business combination is approved and consummated, public stockholders who voted against the initial business combination and exercised their conversion rights will receive their pro rata share of the trust account;
- if our initial business combination is not consummated within 24 months of the date of our final prospectus, then our existence will terminate and we will distribute all amounts in the trust account and any net assets remaining outside the trust account on a pro rata

basis to all of our public stockholders;

- upon the consummation of our offering, approximately \$402.4 million including approximately \$13.5 million of deferred underwriting discounts and commissions was placed into the trust account;
- we may not consummate any other business combination, merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar transaction prior to our initial business combination;
- prior to our initial business combination, we may not issue additional stock that participates in any manner in the proceeds of the trust account, or that votes as a class with the common stock sold in our initial public offering on a business combination;
- our audit committee shall monitor compliance on a quarterly basis with the terms of our initial public offering and, if any noncompliance is identified, the audit committee is charged with the immediate responsibility to take all action necessary to rectify such noncompliance or otherwise cause compliance with the terms of our initial public offering;
- the audit committee shall review and approve all payments made to our initial stockholders, sponsors, officers, directors and our and their affiliates, other than the payment of an aggregate of \$10,000 per month to Hanover Group US LLC for office space, secretarial and administrative services, and any payments made to members of our audit committee will be reviewed and approved by our board of directors, with any interested director abstaining from such review and approval; and
- we will not enter into our initial business combination with an entity which is affiliated with any of our officers, directors, sponsors or initial stockholders.

Our amended and restated certificate of incorporation requires that prior to the consummation of our initial business combination we obtain unanimous consent of our stockholders to amend these provisions. However, the validity of unanimous consent provisions under Delaware law has not been settled. A court could conclude that the unanimous consent requirement constitutes a practical prohibition on amendment in violation of the stockholders' statutory rights to amend the corporate charter. In that case, these provisions could be amended without unanimous consent, and any such amendment could reduce or eliminate the protection these provisions afford to our stockholders. However, we view all of the foregoing provisions as obligations to our stockholders. Neither we nor our board of directors will propose any amendment to these provisions, or support, endorse or recommend any proposal that stockholders amend any of these provisions at any time prior to the consummation of our initial business combination (subject to any fiduciary obligations our management or board may have). In addition, we believe we have an obligation in every case to structure our initial business combination so that not less than 30% of the shares sold in our initial public offering (minus one share) have the ability to be converted to cash by public stockholders exercising their conversion rights and the business combination will still go forward.

## Competition

We have encountered intense competition and will continue to encounter intense competition if the proposed business combination with Halcyon is not completed, from other entities having a business objective similar to ours including other blank check companies, private equity groups and leveraged buyout funds, and operating businesses seeking strategic acquisitions in identifying, evaluating and selecting a target business for an initial business combination. Many of these entities are well established and have extensive experience identifying and effecting business combinations directly or through affiliates. Moreover, many of these competitors possess greater financial, technical, human and other resources than us. Our ability to acquire larger target businesses is limited by our available financial resources. This inherent limitation gives others an advantage in pursuing the acquisition of a target business. Furthermore:

- our obligation to seek stockholder approval of our initial business combination or obtain necessary financial information may delay the completion of a transaction;
- our obligation to convert into cash up to 30% of our shares of common stock held by our public stockholders (minus one share) who vote against the initial business combination and exercise their conversion rights may reduce the resources available to us for an initial business combination;
- our outstanding warrants, and the future dilution they potentially represent, may not be viewed favorably by certain target businesses; and
- the requirement to acquire one or more businesses or assets that have a fair market value equal to at least 80% of the balance of the trust account at the time of the acquisition (excluding deferred underwriting discounts and commissions of approximately \$13.5) million could require us to acquire the assets of several businesses at the same

time, all of which sales would be contingent on the closings of the other sales, which could make it more difficult to consummate the initial business combination.

Any of these factors may place us at a competitive disadvantage in successfully negotiating an initial business combination.

## **Facilities**

We currently list our executive offices at 590 Madison Avenue, 35th Floor, New York, New York 10022. Hanover Group US LLC, an affiliate of one of our officers and directors, is providing certain general and administrative services at that location to us at a fee of \$10,000 per month. We believe, based on fees for similar services in the New York metropolitan area that the fee charged by Hanover Group US LLC is at least as favorable as we could have obtained from an unaffiliated person. We consider their services adequate for our current operations.

## **Employees**

We currently have two executive officers. These individuals are not obligated to devote any specific number of hours to our matters and intend to devote only as much time as they deem necessary to our affairs. The amount of time they will devote in any time period will vary based on whether a target business has been selected for the initial business combination and the stage of the initial business combination process the company is in. Accordingly, once management locates a suitable target business to acquire, they will spend more time investigating such target business and negotiating and processing the initial business combination (and consequently spend more time on our affairs) than they would prior to locating a suitable target business. We presently expect each of our executive officers to each devote at least approximately 10 hours per week to our business. We do not intend to have any full time employees prior to the consummation of an initial business combination. We have agreed to employment agreements with certain of the current Halcyon employees who will serve as executive officers of the Company and Halcyon following the closing of the business combination.

## **Periodic Reporting and Financial Information**

We have registered our units, common stock and warrants under the Securities Exchange Act of 1934, as amended, and have reporting obligations, including the requirement that we file annual, quarterly and current reports with the SEC. In accordance with the requirements of the Securities Exchange Act of 1934, our annual reports will contain financial statements audited and reported on by our independent registered public accountants.

We will provide stockholders with audited financial statements of the prospective target business as part of the proxy solicitation materials sent to stockholders to assist them in assessing the target business. In all likelihood, these financial statements will need to be prepared in accordance with United States generally accepted accounting principles. We cannot assure you that any particular target business identified by us as a potential acquisition candidate will have financial statements prepared in accordance with United States generally accepted accounting principles or that the potential target business will be able to prepare its financial statements in accordance with United States generally accepted accounting principles. To the extent that this requirement cannot be met, we may not be able to acquire the proposed target business. While this may limit the pool of potential acquisition candidates, we do not believe that this limitation will be material.

We are required to have our internal control procedures audited for the fiscal year ending December 31, 2008 as required by the Sarbanes-Oxley Act. A target company may not be in compliance with the provisions of the Sarbanes-Oxley Act regarding adequacy of their internal controls. The development of the internal controls of any such entity to achieve compliance with the Sarbanes-Oxley Act may increase the time and costs necessary to complete any such acquisition.

## **Conflicts of Interest**

Potential investors should also be aware of the following other potential conflicts of interest:

- None of our officers and directors is required to commit their full time to our affairs and, accordingly, they may have conflicts of interest in allocating their time among various business activities.
- Our directors and members of our management team may become aware of business opportunities that may be appropriate for presentation to us as well as the other entities with which they are or may be affiliated. Some of our officers and directors are now and may in the future become affiliated with entities, including other blank check companies, engaged in business activities similar to those intended to be conducted by our company. We have entered into a business opportunity right of first review agreement with Hanover Group US, LLC, Mark D. Klein

and Paul D. Lapping, which provides that from the date of our final prospectus until the earlier of the consummation of our initial business combination or our liquidation in the event we do not consummate an initial business combination, we will have a right of first review with respect to business combination opportunities of which Hanover Group US, LLC, Messrs. Klein and Lapping (subject to any fiduciary obligations they may have), and companies or other entities which they manage or control become aware, in the alternative asset management sector or a related business with an enterprise value of \$155 million or more. Due to existing and future affiliations, our other directors may have fiduciary obligations to present potential business opportunities to other entities with which they are affiliated prior to presenting them to us. Other than Mr. Klein, our directors have not entered into a similar right of first review agreement, and due to potential conflicts of interest we have agreed that neither Mr. Levitt, Mr. Berger nor Mr. Gross is obligated to present to us any specific business opportunity, including any potential initial business combination. Accordingly, our directors may have conflicts of interest in determining to which entity a particular business opportunity should be presented.

- The founders' common stock and sponsors' warrants are subject to transfer restrictions (and in the case of the sponsors' warrants, restrictions on exercise) and will not be released from escrow until specified dates after consummation of our initial business combination. In addition, the sponsors' warrants purchased by the sponsors and any warrants which our initial stockholders, sponsors, officers and directors may purchase in our initial public offering or in the aftermarket will expire worthless if an initial business combination is not consummated. Additionally, our initial stockholders, including our directors, will not receive liquidation distributions with respect to any of their founders' common stock. For the foregoing reasons, our board may have a conflict of interest in determining whether a particular target business is appropriate to effect an initial business combination with.
- Our officers and directors may have a conflict of interest with respect to evaluating a particular business combination if the retention or resignation of any such officers and directors were included by a target business as a condition to any agreement with respect to an initial business combination.
- Hanover Overseas Limited, STC Investment Holdings LLC and Solar Capital, LLC, have entered into agreements with Citigroup Global Markets Inc., in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, pursuant to which they will each place limit orders for \$10.0 million of our common stock, or \$30.0 million in the aggregate, commencing on March 28, 2008 and ending on the business day immediately preceding the record date for the meeting of stockholders at which such initial business combination is to be approved, or earlier in certain circumstances. If Hanover Overseas Limited, STC Investment Holdings LLC or Solar Capital, LLC purchase shares of common stock pursuant to those agreements or if our initial stockholders, sponsors, officers or directors purchase shares of common stock as part of our initial public offering or in the open market, they would be entitled to vote such shares as they choose on a proposal to approve an initial business combination. In connection with the Halcyon transaction, our initial stockholders have agreed to vote all shares acquired by them in the open market in favor of the business combination with Halcyon. In no event can our initial shareholders exercise conversion rights with respect to the proposed business combination with Halcyon or an alternative business combination and convert their shares into a portion of the trust account; provided that these stockholders will participate in any liquidation distributions with respect to any shares of common stock purchased by them following consummation of the offering, including the shares purchased pursuant to such limit orders, in the event we fail to complete an initial business combination.

In general, officers and directors of a corporation incorporated under the laws of the State of Delaware are required to present business opportunities to a corporation if:

- the corporation could financially undertake the opportunity;
- the opportunity is within the corporation's line of business; and
- it would not be fair to the corporation and its stockholders for the opportunity not to be brought to the attention of the corporation.

Accordingly, as a result of multiple business affiliations, our officers and directors may have similar legal obligations relating to presenting business opportunities meeting the above-listed criteria to multiple entities. In addition, conflicts of interest may arise when our board evaluates a particular business opportunity with respect to the above-listed criteria. We cannot assure you that any of the above mentioned conflicts will be resolved in our favor.

In order to minimize potential conflicts of interest which may arise from multiple corporate affiliations, we have entered into a business opportunity right of first review agreement with Hanover Group US, LLC, Mark D. Klein and Paul D.



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Lapping, which provides that from the date of our final prospectus until the earlier of the consummation of our initial business combination or our liquidation in the event we do not consummate an initial business combination, we will have a right of first review with respect to business combination opportunities of which Hanover Group US, LLC, Messrs. Klein and Lapping (subject to any fiduciary obligations they may have), and companies or other entities which they manage or control, become aware in the alternative asset management sector or a related business with an enterprise value of \$155 million or more. Our other directors, however, have not undertaken a similar obligation.

Mr. Levitt, our chairman, is, and will continue to be:

- chairman and chief investment officer of Stone Tower Capital LLC, an alternative asset management firm, which manages several investment funds through affiliates;
- chief executive officer of Stone Tower Equity Partners LLC, which manages related equity funds through affiliates; and
- co-chief executive officer and director of Everquest Financial Ltd., a company that holds interests in structured finance vehicles.

Mr. Berger, a director, is, and will continue to be:

- senior managing director of Stone Tower Capital LLC; and
- managing director of Stone Tower Equity Partners LLC.

Michael Gross, a director, is, and will continue to be:

- chief executive officer, chairman of the board of directors and managing member of Solar Capital, LLC, a newly organized finance company;
- chief executive officer, chairman of the board of directors and secretary of Marathon Acquisition Corp., a blank check company formed to acquire one or more operating businesses; and
- co-chairman of the investment committee of Magnetar Financial LLC and senior partner of Magnetar Capital Partners LP, the holding company of Magnetar Financial LLC.

As a result of these affiliations, Messrs. Levitt, Berger and Gross may have preexisting fiduciary, contractual or other obligations to those entities that may cause them to have conflicts in presenting to us specific business opportunities that may be attractive to us. Because of these potential preexisting obligations, we have agreed that neither Mr. Levitt, Mr. Berger nor Mr. Gross will have an obligation to present to us any specific business opportunity.

In connection with the vote required for our initial business combination, all of the initial stockholders, have agreed to vote the founders common stock in accordance with the vote of the public stockholders owning a majority of the shares of our common stock sold in our initial public offering. In addition, they have agreed to waive their respective rights to participate in any liquidation distribution with respect to the founders common stock. If they purchase shares of common stock as part of our initial public offering or in the open market, however, including pursuant to the limit orders discussed above, they would be entitled to vote such shares as they choose on a proposal to approve an initial business combination; however, in no event could they exercise conversion rights and convert their shares into a portion of the trust account.

To further minimize potential conflicts of interest, we have agreed not to consummate an initial business combination with an entity which is affiliated with any of our officers, directors, sponsors or initial stockholders. Furthermore, in no event will any of our initial stockholders, sponsors, officers or directors, or any of their respective affiliates, be paid any finder's fee, consulting fee or other compensation prior to, or for any services they render in order to effectuate, the consummation of an initial business combination.

### Item 1A. Risk Factors

*An investment in our securities involves a high degree of risk. You should consider carefully all of the material risks described below, together with the other information contained in this report before making a decision to invest in our securities. If any of the following events occur, our business, financial condition and operating results may be materially adversely affected. In that event, the trading price of our securities could decline, and you could lose all or part of your*

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*investment. This annual report also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of specific factors, including the risks described below.*

***We are a development stage company with no operating history and no revenues, and you have no basis on which to evaluate our ability to achieve our business objective.***

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We are a development stage company with no operating results to date. Since we do not have an operating history, you have no basis upon which to evaluate our ability to achieve our business objective of completing an initial business combination with one or more target businesses. We have entered into a definitive agreement for an initial business combination with Halcyon; however, we cannot assure you that we will be able to complete such business combination. If we expend all of the proceeds from our initial public offering not held in trust and interest income earned of up to \$3.5 million (net of income and franchise taxes on such interest) on the balance of the trust account that may be released to us to fund our working capital requirements in seeking to complete an initial business combination, but fail to complete such a combination, we will never generate any operating revenues.

***We may not be able to consummate an initial business combination within the required time frame, in which case, we would be forced to liquidate our assets.***

Pursuant to our amended and restated certificate of incorporation, we have 24 months from the date of our final prospectus, or until August 1, 2009, in which to complete an initial business combination. If we fail to consummate an initial business combination within the required time frame, our corporate existence will, in accordance with our amended and restated certificate of incorporation, cease except for the purposes of winding up our affairs and liquidating. The foregoing requirements are set forth in Article Sixth of our amended and restated certificate of incorporation and may not be eliminated except in connection with, and upon consummation of, an initial business combination. We may not be able to complete our proposed business combination with Halcyon or find another suitable target businesses within the required time frame. In addition, our negotiating position and our ability to conduct adequate due diligence on any potential target may be reduced as we approach the deadline for the consummation of an initial business combination.

***If we are forced to liquidate before an initial business combination and distribute the trust account, our public stockholders may receive less than \$10.00 per share and our warrants will expire worthless.***

If we are unable to complete an initial business combination within 24 months from the date of our final prospectus, or until August 1, 2009, and are forced to liquidate our assets, the per-share liquidation distribution may be less than \$10.00 because of the expenses of our offering, our general and administrative expenses and the anticipated costs of seeking an initial business combination. Furthermore, there will be no distribution with respect to our outstanding warrants which will expire worthless if we liquidate before the completion of an initial