

Great American Group, Inc.
Form 10-Q
November 16, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2009.

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 333-159644

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

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

27-0223495
(I.R.S. Employer Identification No.)

21860 Burbank Boulevard, Suite 300 South
Woodland Hills, CA
(Address of Principal Executive Offices)

91367
(Zip Code)

(818) 884-3737
(Registrant's telephone number, including area code)

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

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

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

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

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

As of November 13, 2009, there were 29,961,626 shares of the Registrant's common stock, par value \$0.0001 per share, outstanding.

Great American Group, Inc.
Quarterly Report on Form 10-Q
For The Quarter Ended September 30, 2009
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some statements in this Quarterly Report on Form 10-Q (this Quarterly Report) are known as forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements may relate to, among other things:

- our future financial performance;
- fluctuations in our revenues and results of operations due to the variability in the mix of revenues from the auction and liquidation solutions business;
- our dependence on financial institutions as primary clients for our valuation and appraisal services business;
- the impact of changing economic and market conditions on our business;
- the liability we may face or the harm to our reputation resulting from claims of inaccurate appraisal or valuation;
- our ability to effectively compete or gain market share from our competitors;
- our ability to attract and retain qualified personnel;
- the international expansion of our services;
- our ability to incur additional indebtedness; and
- our ability to meet current obligations under our credit facilities.

These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained in this Quarterly Report that are not historical facts. When used in this Quarterly Report, the words expects, anticipates, intends, plans, believes, seeks, estimates and similar expressions are generally intended to identify forward-looking statements. Because these forward-looking statements involve known and unknown risks and uncertainties, there are important factors that could cause actual results, events or developments to differ materially from those expressed or implied by these forward-looking statements, including our plans, objectives, expectations and intentions and other factors discussed in Part II Item 1A. Risk Factors contained in this Quarterly Report. You should not place undue reliance on such forward-looking statements, which are based on the information currently available to us and speak only as of the date on which this Quarterly Report was filed with the Securities and Exchange Commission SEC . We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. However, your attention is directed to any further disclosures made on related subjects in our subsequent periodic reports filed with the SEC on Forms 10-K, 10-Q and 8-K and Schedule 14A.

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

| | September 30, 2009 (Unaudited) | December 31, 2008 |
|--|---|----------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 46,839 | \$ 16,965 |
| Restricted cash | 24,956 | 3,653 |
| Accounts receivable, net | 2,550 | 4,703 |
| Advances against customer contracts | 8 | 2,971 |
| Goods held for sale or auction | 16,551 | 17,842 |
| Assets of discontinued operations | 116 | 1,217 |
| Deferred income taxes | 5,561 | |
| Prepaid expenses and other current assets | 2,538 | 673 |
| Total current assets | 99,119 | 48,024 |
| Property and equipment, net | 1,394 | 1,087 |
| Goodwill | 5,688 | 5,688 |
| Other intangible assets, net | 423 | 544 |
| Deferred income taxes | 2,049 | |
| Other assets | 781 | 488 |
| Total assets | \$ 109,454 | \$ 55,831 |
| Liabilities and Stockholders Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 10,209 | \$ 14,914 |
| Accrued compensation plans | | 6,938 |
| Auction and liquidation proceeds payable | 3,549 | 1,891 |
| Mandatorily redeemable noncontrolling interests | 2,422 | 1,928 |
| Warrant redemption liability | 23,013 | |
| Current portion of long-term debt | 11,322 | 291 |
| Note payable | 12,452 | 10,984 |
| Current portion of capital lease obligation | 161 | 167 |
| Total current liabilities | 63,128 | 37,113 |
| Capital lease obligation, net of current portion | 104 | 232 |
| Long-term debt, net of current portion | 44,494 | 3,985 |
| Total liabilities | 107,726 | 41,330 |
| Commitments and contingencies | | |
| Stockholders equity: | | |

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| | | |
|--|------------|-----------|
| Preferred stock, \$0.0001 par value; 10,000,000 shares authorized; none issued | | |
| Common stock, \$0.0001 par value; 135,000,000 shares authorized; 30,022,478 and 10,560,000 issued and outstanding as of September 30, 2009 and December 31, 2008, respectively | 3 | 1 |
| Additional paid-in Capital | (2,313) | |
| Deferred compensation | | (1,643) |
| Retained earnings | 4,038 | 16,143 |
| Total stockholders' equity | 1,728 | 14,501 |
| Total liabilities and stockholders' equity | \$ 109,454 | \$ 55,831 |

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

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GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Unaudited)

(Dollars in thousands, except share data)

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Revenues | | | | |
| Services and fees | \$ 10,980 | \$ 7,813 | \$ 60,767 | \$ 28,805 |
| Sale of goods | 4,056 | 766 | 11,197 | 2,938 |
| Total revenues | 15,036 | 8,579 | 71,964 | 31,743 |
| Operating expenses: | | | | |
| Direct cost of services | 4,792 | 4,281 | 12,540 | 14,858 |
| Cost of goods sold | 3,851 | 887 | 9,553 | 2,870 |
| Selling, general and administrative expenses | 7,246 | 4,488 | 26,084 | 13,934 |
| Total operating expenses | 15,889 | 9,656 | 48,177 | 31,662 |
| Operating income (loss) | (853) | (1,077) | 23,787 | 81 |
| Other income (expense): | | | | |
| Interest income | 12 | 22 | 20 | 123 |
| Other income (expense) | (341) | 39 | (580) | 76 |
| Interest expense | (2,328) | (631) | (9,272) | (1,150) |
| Income (loss) from continuing operations before benefit for income taxes | (3,510) | (1,647) | 13,955 | (870) |
| Benefit for income taxes | 7,610 | | 7,610 | |
| Income (loss) from continuing operations | 4,100 | (1,647) | 21,565 | (870) |
| Loss from discontinued operations | (67) | (65) | (67) | (288) |
| Net income (loss) | \$ 4,033 | \$ (1,712) | \$ 21,498 | \$ (1,158) |
| Weighted average basic shares outstanding | 22,088,614 | 10,560,000 | 14,445,101 | 10,560,000 |
| Weighted average diluted shares outstanding | 23,472,774 | 10,560,000 | 14,906,487 | 10,560,000 |
| Basic earnings (loss) per share (note 11) | \$ 0.18 | \$ (0.16) | \$ 1.49 | \$ (0.11) |
| Diluted earnings (loss) per share (note 11) | \$ 0.17 | \$ (0.16) | \$ 1.44 | \$ (0.11) |

PRO FORMA COMPUTATION RELATED TO CONVERSION TO C CORPORATION FOR INCOME TAX PURPOSES

(unaudited):

| | | | | |
|---|------------|------------|-----------|----------|
| Historical income (loss) from continuing operations before income taxes | \$ (3,510) | \$ (1,647) | \$ 13,955 | \$ (870) |
| Pro forma benefit (provision) for income taxes | 1,383 | 649 | (5,498) | 343 |

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| | | | | |
|---|------------|------------|------------|------------|
| Pro forma income (loss) from continuing operations | (2,127) | (998) | 8,457 | (527) |
| Pro forma loss from discontinued operations, net of tax | (41) | (39) | (41) | (175) |
| Pro forma net income (loss) | \$ (2,168) | \$ (1,037) | \$ 8,416 | \$ (702) |
| Pro forma weighted average basic shares outstanding | 22,088,614 | 10,560,000 | 14,445,101 | 10,560,000 |
| Pro forma weighted average diluted shares outstanding | 22,088,614 | 10,560,000 | 14,906,487 | 10,560,000 |
| Pro forma basic earnings (loss) per share | \$ (0.10) | \$ (0.10) | \$ 0.58 | \$ (0.07) |
| Pro forma diluted earnings (loss) per share | (0.10) | (0.10) | 0.56 | (0.07) |

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

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GREAT AMERICAN GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Stockholders Equity
For the Nine Months Ended September 30, 2009
(Unaudited)
(Dollars in thousands)

| | Preferred | | Additional | | | Retained Earnings | Total Stockholders Equity | |
|---|-----------|--------|---------------------|---------------------|-----------------|-------------------|---------------------------|-----------------------|
| | Shares | Amount | Common Stock Shares | Common Stock Amount | Paid-in Capital | | | Deferred Compensation |
| Balance, January 1, 2009 | | \$ | 10,560,000 | \$ 1 | \$ | \$ (1,643) | \$ 16,143 | \$ 14,501 |
| Amortization of GAG, LLC deferred compensation arrangements through July 31, 2009 | | | | | | 621 | | 621 |
| Termination of GAG, LLC deferred compensation arrangements as of July 31, 2009 | | | | | | 1,022 | | 1,022 |
| Shares outstanding at time of reverse merger dated July 31, 2009 | | | 21,846,626 | 2 | 47,394 | | | 47,396 |
| Shares forfeited at time of reverse merger dated July 31, 2009 | | | (2,500,000) | | | | | |
| Issuance of shares for services | | | 115,852 | | | | | |
| Share based compensation | | | | | 1,243 | | | 1,243 |
| Distributions to stockholders | | | | | (50,950) | | (33,603) | (84,553) |
| Net income for the nine months ended September 30, 2009 | | | | | | | 21,498 | 21,498 |
| Balance, September 30, 2009 | | \$ | 30,022,478 | \$ 3 | \$ (2,313) | \$ | \$ 4,038 | \$ 1,728 |

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

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

| | Nine Months Ended | |
|--|--------------------------|-------------|
| | September 30, | |
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 21,498 | \$ (1,158) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 465 | 308 |
| Provision for (recoveries of) doubtful accounts | (24) | 31 |
| Impairment related to assets of discontinued operations | 67 | 366 |
| Share-based payments | 1,543 | 780 |
| Non-cash interest | 9 | 24 |
| Loss on disposal of assets | 15 | 2 |
| Deferred income taxes | (7,610) | |
| Income allocated to mandatorily redeemable noncontrolling interests | 1,311 | 560 |
| Change in operating assets and liabilities: | | |
| Accounts receivable and advances against customer contracts | 5,140 | 7,366 |
| Goods held for sale or auction | 2,325 | (10,861) |
| Prepaid expenses and other assets | (2,159) | 132 |
| Accounts payable and accrued expenses | (3,237) | (996) |
| Auction and liquidation proceeds payable | 1,658 | (1,709) |
| Accrued compensation plans | 4,005 | (1,428) |
| Net cash provided by (used in) operating activities | 25,006 | (6,583) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (666) | (367) |
| Increase in restricted cash | (21,303) | (6) |
| Net cash used in investing activities | (21,969) | (373) |
| Cash flows from financing activities: | | |
| Proceeds from (repayment of) revolving lines of credit, net | | (7,900) |
| Payment of note payable | (4,383) | |
| Proceeds from note payable | | 10,486 |
| Repayments of long-term debt | (4,086) | (415) |
| Repayments of capital lease obligation | (134) | 6 |
| Proceeds from reverse merger dated July 31, 2009 | 70,409 | |
| Distribution to members | (33,853) | |
| Distribution to noncontrolling interests | (1,116) | (841) |
| Net cash provided by financing activities | 26,837 | 1,336 |
| Net increase (decrease) in cash and cash equivalents | 29,874 | (5,620) |

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| | | |
|---|-----------|-----------|
| Cash and cash equivalents, beginning of period | 16,965 | 16,029 |
| Cash and cash equivalents, end of period | \$ 46,839 | \$ 10,409 |
| Supplemental disclosures: | | |
| Interest paid | \$ 6,654 | \$ 989 |
| Supplemental disclosures of noncash investing and financing activities: | | |
| Deferred compensation arrangements | \$ 1,022 | \$ |
| Issuance of notes payable from reverse merger dated July 31, 2009 | 60,000 | |

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

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

NOTE 1 ORGANIZATION, BUSINESS OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

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

On July 31, 2009, the members of GAG, LLC (the Great American Members) contributed all of their membership interests of GAG, LLC to the Company (the Contribution) in exchange for 10,560,000 shares of common stock of the Company and a subordinated unsecured promissory note in an initial principal amount of \$60,000 issued in favor of the Great American Members and the phantom equityholders of GAG, LLC (the Phantom Equityholders, and together with the Great American Members, the Contribution Consideration Recipients) (see Note 15). Concurrently with the Contribution, AAMAC merged with and into AAMAC Merger Sub, Inc. (Merger Sub), a subsidiary of the Company (the Merger and, together with the Contribution, the Acquisition). As a result of the Acquisition, GAG, LLC and AAMAC became wholly-owned subsidiaries of the Company.

The Acquisition was effected pursuant to an Agreement and Plan of Reorganization, dated as of May 14, 2009, as amended by Amendment No. 1 to Agreement and Plan of Reorganization dated as of May 29, 2009, Amendment No. 2 to Agreement and Plan of Reorganization dated as of July 8, 2009, and Amendment No. 3 to Agreement and Plan of Reorganization, dated as of July 28, 2009 (as amended, the Purchase Agreement), by and among the Company, AAMAC, Merger Sub, the Great American Members and the representative of Great American Members. The Acquisition has been accounted for as a reverse merger accompanied by a recapitalization of the Company.

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

NOTE 2 COMPLETED MERGER

On July 31, 2009, pursuant to the terms of the Purchase Agreement, the Acquisition was consummated and the Great American Members contributed all of their membership interests of GAG, LLC to the Company in exchange for 10,560,000 shares of common stock of the Company and a subordinated unsecured promissory note an initial principal amount of \$60,000 (which was reduced by a principal payment to the Contribution Consideration Recipients of \$4,383 at the closing of the Acquisition. On August 28, 2009, the note was replaced with separate subordinated unsecured promissory notes issued in favor of each of the Contribution Consideration Recipients. The notes mature on July 31, 2014 and bear interest at a rate of 12% per annum. Interest on the notes is payable quarterly in arrears on January 31st, April 30th, July 31st, and October 31st of each year. The first quarterly interest payment was made on October 31, 2009. One-fifth of the aggregate principal amount of the notes, including any accrued and unpaid interest thereon, will be payable on each anniversary of the issuance date of the original note through July 31, 2014.

Concurrently with the Contribution, AAMAC merged with and into Merger Sub and GAG, LLC and AAMAC became wholly-owned subsidiaries of the Company. In connection with the Acquisition, (i) each of the 10,923,313 shares of AAMAC common stock which were outstanding immediately prior to the effective time of the Acquisition were exchanged for 2.0 shares of the Company's common stock and (ii) each of the 46,025,000 outstanding AAMAC warrants, which were exercisable for one share of AAMAC common stock, were exchanged for a warrant exercisable for one share of the Company's common stock. The units of AAMAC were separated into the component common

stock and warrant, each of which participated in the Acquisition as described in the preceding sentence. Pursuant to a letter agreement, dated as of July 28, 2009 (the Letter Agreement) by and among the Company, AAMAC, GAG, LLC, and certain founding shareholders of AAMAC (the AAMAC Founders), the AAMAC Founders agreed to cancel 7,850,000 shares of their 10,350,000 shares of AAMAC common stock immediately prior to the Acquisition and to cancel 2,500,000 shares of the Company s common stock that they received in exchange for their AAMAC common stock in the Acquisition. In accordance with the Letter Agreement, of the 2,500,000 shares of the Company s common stock the AAMAC Founders received in exchange for their AAMAC shares, 1,500,000 of such shares are being held in escrow for a period of one year from the closing of the Acquisition and the remaining 1,000,000 of such shares will continue to be held in escrow until GAG, LLC s achievement of any one of the Adjusted EBITDA targets discussed below. The 1,000,000 shares, which are subject to voting restrictions while in escrow, will be forfeited and cancelled if GAG, LLC fails to achieve any of the Adjusted EBITDA targets discussed below.

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The number of shares of common stock of the Company issued and outstanding immediately following the consummation of the Acquisition on July 31, 2009 is summarized as follows:

| | Number of Shares |
|---|-----------------------------|
| AAMAC Public Shares outstanding prior to the Acquisition | 41,400,000 |
| AAMAC Founder shares (1) | 2,500,000 |
| | |
| Total AAMAC shares outstanding prior to the Acquisition | 43,900,000 |
| AAMAC shares converted to a pro rata share portion of AAMAC's trust account (2) | (11,835,425) |
| AAMAC shares purchased pursuant to stock purchase agreements (3) | (21,141,262) |
| | |
| Total AAMAC shares outstanding immediately prior to the effective time of the Acquisition | 10,923,313 |
| Share exchange ratio (2.00 to 1) | 2x |
| | |
| Common shares issued in connection with the Acquisition | 21,846,626 |
| Common shares issued as purchase consideration to Great American Members | 10,560,000 |
| Common shares forfeited by AAMAC Founders in accordance with Letter Agreement | (2,500,000) |
| | |
| Total common shares outstanding at closing, July 31, 2009 | 29,906,626 |

(1) Reflects the cancellation of 7,850,000 shares held by the AAMAC Founders immediately prior to the consummation of the Acquisition.

(2) Reflects the 11,835,425 AAMAC shares, representing 28.59% of the shares sold in AAMAC's initial public offering, that were converted into a pro rata portion of the funds in the AAMAC trust account in

connection with
the
consummation
of the
Acquisition.

- (3) Prior to
AAMAC's
stockholder
meeting on
July 31, 2009,
AAMAC
entered into
stock purchase
agreements with
several third
parties pursuant
to which
AAMAC agreed
to purchase such
parties' AAMAC
shares in
connection with
the Acquisition
and such parties
agreed to give
AAMAC's
management
proxies to vote
their AAMAC
shares in favor
of the
Acquisition.

The Purchase Agreement provides for the issuance of 1,440,000 shares of common stock of the Company to the Phantom Equityholders pursuant to the following vesting schedule: 50% on January 31, 2010, 25% on July 31, 2010 and the remaining 25% on January 31, 2011.

The Purchase Agreement also provides for the issuance of 6,000,000 additional shares of common stock (the Contingent Stock Consideration) to the Contribution Consideration Recipients as follows: (a) in the event GAG, LLC achieves any one of (i) \$45,000 in Adjusted EBITDA (as defined in the Purchase Agreement) for the 12 months ending December 31, 2009, (ii) \$47,500 in Adjusted EBITDA for the 12 months ending March 31, 2010, or (iii) \$50,000 in Adjusted EBITDA for the 12 months ending June 30, 2010, the Company will be obligated to issue to the Contribution Consideration Recipients 2,000,000 shares of the Contingent Stock Consideration; (b) in the event GAG, LLC achieves \$55,000 in Adjusted EBITDA (as defined in the Purchase Agreement) for the fiscal year ending December 31, 2010, then the Company will be obligated to issue to the Contribution Consideration Recipients 2,000,000 shares