

Stone Arcade Acquisition CORP
Form 10-Q/A
December 12, 2006

**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

**FORM 10-Q/A
Amendment NO.1**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2005.**

or

**Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to .**

Commission File Number: 000-51444

Stone Arcade Acquisition Corporation
(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

20-2699372
(I.R.S. Employer
Identification No.)

**c/o Stone-Kaplan Investments, LLC, One Northfield Plaza, Suite 480
Northfield, IL 60093**

(Address of Principal Executive Offices including zip code)

(847) 441-0929
(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 Exchange Act 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 an accelerated filer (as defined on Rule 12b-2 of the Exchange Act).
Yes No

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

There were 25,000,000 shares of the Registrant's Common Stock issued and outstanding on November 11, 2005.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (“Form 10-Q/A”) to the Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2005, initially filed with the Securities and Exchange Commission on November 14, 2005 (the “Original Filing”), reflects changes to the notes to the financial statements relating to the exercise provisions of the Company’s warrants. This Form 10-Q/A amends and restates (i) Item 1. Financial Statements. In addition, the Original Filing has been amended to contain currently dated certifications from the Company’s Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act (See Exhibits 31 and 32).

Except to the extent modified or updated, the foregoing items have not been amended to reflect other events occurring after the Original Filing or to modify or update those disclosures affected by subsequent events. Other events occurring after the filing of the Original Filing or other disclosures necessary to reflect subsequent events have been addressed in the Company’s reports filed with the Securities and Exchange Commission subsequent to the filing of the Original Filing.

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PART I - FINANCIAL INFORMATION**Item 1 - FINANCIAL STATEMENTS (UNAUDITED)****Stone Arcade Acquisition Corporation**
(a development stage company)**Balance Sheet****September 30, 2005****ASSETS****Current assets:**

| | | |
|--|-----------|--------------------|
| Cash | \$ | 2,263,930 |
| Cash and cash equivalents, held in trust | | 111,276,341 |
| Prepaid insurance | | 171,500 |
| Other prepaid expenses | | 8,925 |
| Total assets | \$ | 113,720,696 |

LIABILITIES AND STOCKHOLDERS' EQUITY**Current liabilities:**

| | | |
|----------------------------------|----|----------------|
| Accrued expenses | \$ | 61,154 |
| Accrued income taxes | | |
| Current | | 71,725 |
| Deferred | | 61,345 |
| | | 133,070 |
| Total current liabilities | | 194,224 |

Commitments and Contingencies:

| | |
|--|-------------------|
| Common stock, subject to possible redemption - 3,998,000 shares | 22,159,715 |
| Deferred interest attributable to common stock subject to possible redemption (net of taxes of \$28,705) | 55,721 |
| Total Commitments and Contingencies | 22,215,436 |

| | |
|--------------------------|-------------------|
| Total Liabilities | 22,409,660 |
|--------------------------|-------------------|

Stockholders' Equity:

| | |
|---|-----------------------|
| Preferred stock — \$.0001 par value; 1,000,000 shares authorized; 0 shares issued and outstanding | |
| Common stock—\$.0001 par value, 175,000,000 shares authorized; 25,000,000 shares issued and outstanding (including 3,998,000 shares of common stock subject to possible redemption) | 2,500 |
| Additional paid-in capital | 91,105,946 |
| Income accumulated during the development stage | 202,590 |
| Total stockholders' equity | 91,311,036 |
| Total liabilities and stockholders' equity | \$ 113,720,696 |

See notes to unaudited financial statements

Stone Arcade Acquisition Corporation
(a development stage company)

Unaudited Statements of Operations

| | July 1, 2005 Through September 30, 2005 | April 15, 2005 (Date of Inception) Through September 30, 2005 |
|---|--|--|
| Cost and expenses | | |
| Operating expenses | \$ 37,799 | \$ 38,799 |
| Other income | | |
| Bank interest | 7,839 | 7,839 |
| Interest on cash and cash equivalents held in trust | 422,341 | 422,341 |
| Total other income | 430,180 | 430,180 |
| Income before provision for income taxes | 392,381 | 391,381 |
| Provision for income taxes | | |
| Current | 71,725 | 71,725 |
| Deferred | 61,345 | 61,345 |
| Total provision for income taxes | 133,070 | 133,070 |
| Net income | 259,311 | 258,311 |
| Deferred interest, net of taxes, attributable to common stock subject to possible redemption | (55,721) | (55,721) |
| Net income allocable to holders of non-redeemable common stock | \$ 203,590 | \$ 202,590 |
| Earnings per share -basic and diluted | \$.02 | \$.02 |
| Weighted average number of shares outstanding exclusive of shares subject to possible redemption-- basic and diluted | 12,305,261 | 9,030,262 |

See notes to unaudited financial statements

Stone Arcade Acquisition Corporation
(a development stage company)

Unaudited Statements of Stockholders' Equity

| | Common Stock | | Additional | Income | |
|---|--------------|----------|---------------|-------------|---------------|
| | Shares | Amount | Paid-In | (Loss) | |
| | | | Capital | Accumulated | Total |
| | | | | During the | |
| | | | | Development | |
| | | | | Stage | |
| Balance — April 15, 2005 | - | - | - | - | - |
| (date of inception) | | | | | |
| Initial capital from founding stockholders | 5,000,000 | \$ 500 | \$ 24,500 | \$ | 25,000 |
| Net loss for the period | | | | (1,000) | (1,000) |
| Balance-June 30, 2005 | 5,000,000 | 500 | 24,500 | (1,000) | 24,000 |
| Sale of 20,000,000 units (including 3,998,000 shares of common stock subject to possible redemption), net of underwriters' discount and offering expenses | 20,000,000 | 2,000 | 113,241,161 | | 113,243,161 |
| Reclassification as a result of 3,998,000 shares of common stock being subject to possible redemption | | | (22,159,715) | | (22,159,715) |
| Net income for the period | | | | 203,590 | 203,590 |
| Balance—September 30, 2005 | 25,000,000 | \$ 2,500 | \$ 91,105,946 | \$ 202,590 | \$ 91,311,036 |

See notes to unaudited financial statements

Stone Arcade Acquisition Corporation
(a development stage company)

Unaudited Statement of Cash Flows

April 15, 2005
(Date of Inception)
through
September 30, 2005

Cash flows from operating activities:

| | |
|---|------------|
| Net income | \$ 258,311 |
| Deferred income taxes | 61,345 |
| Changes in: | |
| Prepaid insurance | (171,500) |
| Other prepaid expenses | (8,925) |
| Accrued expenses | 61,154 |
| Accrued income taxes | 71,725 |
| Net cash provided by operating activities | 272,110 |

Cash flows from investing activities:

| | |
|---|---------------|
| Cash and cash equivalents held in trust | (111,276,341) |
| Net cash used in investing activities | (111,276,341) |

Cash flows from financing activities:

| | |
|---|---------------------|
| Proceeds from public offering, net of expenses of \$6,756,839 | 113,243,161 |
| Proceeds from sale of common stock to founding stockholders | 25,000 |
| Proceeds from notes payable to stockholders | 200,000 |
| Repayment of notes to stockholders | (200,000) |
| Net cash provided by financing activities | 113,268,161 |
| Net increase in cash | 2,263,930 |
| Cash — beginning of period | 0 |
| Cash — end of period | \$ 2,263,930 |

Supplemental disclosure of non-cash activities:

| | |
|---|---------------|
| Reclassification of common stock subject to possible redemption | \$ 22,159,715 |
|---|---------------|

See notes to unaudited financial statements

Stone Arcade Acquisition Corporation
(a development stage company)

Notes to Unaudited Financial Statements
September 30, 2005

NOTE A — ORGANIZATION, BUSINESS OPERATIONS AND SUBSEQUENT EVENTS

Stone Arcade Acquisition Corporation (the "Company") was incorporated in Delaware on April 15, 2005. The Company was formed to serve as a vehicle for the acquisition of an operating business in the paper, packaging, forest products and related industries through a merger, capital stock exchange, asset acquisition, or other similar business combination ("Business Combination"). The Company has neither engaged in any operations nor generated operating revenue. The Company is considered to be in the development stage and is subject to the risks associated with activities of development stage companies. The Company has selected December 31 as its fiscal year end.

The financial information in this report has not been audited, but in the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary to present fairly such information have been included. Operating results for the interim period are not necessarily indicative of the results to be expected for the full year.

The registration statement for the Company's initial public offering (the "Offering") was declared effective on August 15, 2005. The Company consummated the Offering on August 19, 2005 and received net proceeds of approximately \$113,318,000. The Company's management has broad discretion with respect to the specific application of the net proceeds of the Offering (as described in Note C), although substantially all of the net proceeds of the Offering are intended to be generally applied toward a Business Combination. Furthermore, there is no assurance that the Company will be able to successfully effect a Business Combination. Of the net proceeds, \$111,276,341, (\$110,854,000 plus interest earned of \$422,341) is being held in a trust account ("Trust Fund") and invested in government securities until the earlier of (i) the consummation of the first Business Combination or (ii) the distribution of the Trust Fund as described below. The remaining proceeds may be used to pay for business, legal and accounting due diligence on prospective business combinations and continuing general and administrative expenses. The Company, after signing a definitive agreement for the acquisition of a target business, will submit such transaction for stockholder approval. In the event that holders of 20 percent or more of the shares issued in the Offering vote against the Business Combination, the Business Combination will not be consummated. If holders of less than 20 percent of the shares issued in the Offering vote against the Business Combination, the Business Combination will be consummated and the shares of such holders will be redeemed at the net offering price, \$5.54, plus interest allocable to such shares, net of income taxes. The number of shares subject to possible redemption is 3,998,000.

In the event that the Company does not consummate a Business Combination within 18 months from the date of the consummation of the Offering, or 24 months from the consummation of the Offering if certain extension criteria are satisfied (the "Acquisition Period"), the proceeds held in the Trust Fund will be distributed to the Company's public stockholders, excluding the persons who were stockholders prior to the Offering (the "Founding Stockholders") to the extent of their initial stock holdings. However, the Founding Stockholders will participate in any liquidation distribution with respect to any shares of common stock they acquired in connection with or following the Offering. In the event of a liquidation distribution, it is likely that the per share value of the residual assets remaining available for distribution (including Trust Fund assets) will be less than the initial public offering price per share in the Offering (assuming no value is attributed to the Warrants contained in the Units in the Offering discussed in Note C).

Stone Arcade Acquisition Corporation
(a development stage company)

Notes to Unaudited Financial Statements — (Continued)

NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents—All highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

Earnings Per Common Share—Earnings per share is computed by dividing net income applicable to holders of non-redeemable common shares by the weighted average number of non-redeemable common shares outstanding for the period.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Income taxes—Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, primarily relating to deferred income of \$84,426 and deferred expenses of \$180,425. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized.

NOTE C — INITIAL PUBLIC OFFERING

On August 19, 2005, the Company sold 20,000,000 units (“Units”). Each Unit consists of one share of the Company’s common stock, \$.0001 par value, and two warrants (“Warrants”). Each Warrant entitles the holder to purchase from the Company one share of common stock at an exercise price of \$5.00. Each warrant is exercisable on the later of (a) the completion of a Business Combination or (b) August 15, 2006, and expires on August 15, 2009. The Warrants are redeemable at a price of \$.01 per Warrant upon 30 days notice after the Warrants become exercisable, only in the event that the last sale price of the common stock is at least \$8.50 per share for any 20 trading days within a 30 trading day period ending on the third day prior to the date on which notice of redemption is given.

In connection with the Offering, the Company paid the underwriters an underwriting discount of 5 percent of the gross proceeds of the Offering. The Company also issued for \$100 an option to the representative of the underwriters to purchase up to a total of 1,000,000 Units at a price of \$7.50 per unit. The Units issuable upon the exercise of this option are identical to those offered in the prospectus, except that the exercise price of the Warrants included in the underwriters’ purchase option is \$6.25. This option is exercisable commencing on the later of the consummation of a Business Combination or one year from the date of the prospectus, expires five years from the date of the prospectus, and may be exercised on a cashless basis. The option may not be sold, transferred, assigned, pledged or hypothecated until August 16, 2006. However, the option may be transferred to any underwriter and selected dealer participating in the Offering and their bona fide officers or partners.

The underwriters’ purchase option and the Warrants (including the warrants underlying the underwriters’ option) will be exercisable only if at the time of exercise a current registration statement covering the underlying securities is effective or, in the opinion of counsel, not required, and if the securities are qualified for sale or exempt from qualification under the applicable state securities laws of the exercising holder. The Company is obligated to use its best efforts to maintain an effective registration statement during the term of the option and the Warrants; however, it may be unable to do so. Holders of the option and the Warrants are not entitled to receive a net cash settlement or other settlement in lieu of physical settlement if the common stock underlying the Warrants, or securities underlying

the option, as applicable, are not covered by an effective registration statement. Accordingly, the Warrants, which do not have a cashless exercise provision, may expire unexercised and worthless if a current registration statement covering the common stock is not effective.

Stone Arcade Acquisition Corporation
(a development stage company)

Notes to Unaudited Financial Statements — (Continued)

NOTE C — INITIAL PUBLIC OFFERING*Continued*

The holders of the option have demand and piggy-back registration rights under the Securities Act for periods of five and seven years, respectively, from the date of the prospectus with respect to registration of the securities directly and indirectly issuable upon exercise of the option. The exercise price and number of units issuable upon exercise of the option may be adjusted in certain circumstances, including issuances of a stock dividend, recapitalization, reorganization, merger or consolidation. However, the option will not be adjusted for issuances at a price below its exercise price.

The Company estimated, based upon a Black Scholes model, that the fair value of the purchase option on the date of sale was approximately \$980,000, using an expected life of four years, volatility of 23.9 percent, and a risk-free rate of 3.93 percent. However, because the Units do not have a trading history, the volatility assumption was based on information then available to management. The volatility estimate was derived using five-year historical stock prices for the nine companies in the Standard and Poor's Supercomposite Paper Packaging Index. The Company believes the volatility estimate calculated from this index was a reasonable benchmark to use in estimating the expected volatility of the units; however, the use of an index to estimate volatility may not necessarily be representative of the volatility of the underlying securities. Although an expected life of four years was used in this calculation, if the Company does not consummate a Business Combination within the prescribed time period and liquidates, the option will become worthless.

NOTE D — NOTES PAYABLE TO STOCKHOLDERS

The Company issued non-interest bearing unsecured promissory notes to the Founding Stockholders of the Company totaling \$200,000 on April 16 and April 25, 2005. The Notes were repaid in accordance with their terms on August 19, 2005 from the proceeds of the Offering.

NOTE E —RELATED PARTY TRANSACTIONS

The Company has agreed to pay Stone-Kaplan Investments, LLC, a company where certain of the Founding Stockholders serve in executive capacities, an administrative fee of \$7,500 per month for office space and general and administrative services from August 15, 2005 through the acquisition date of a target business. Stone-Kaplan Investments, LLC has agreed to pay a portion of the aforementioned administrative fee to Arcade Partners LLC, a company where certain of the Founding Stockholders serve in executive capacities. From time to time, the Company retains the services of White Oak Aviation, a company solely owned by certain Founding Stockholders. For the quarter ended September 30, 2005 and for the period from inception to September 30, 2005, the amount paid to this entity was \$11,829.

NOTE F—COMMITMENTS

The Company has engaged the representative of the underwriters to act as its investment banker in connection with a Business Combination. The Company has agreed to pay the representative a cash fee of \$1,200,000 at the closing of the Business Combination for assisting the Company in structuring and negotiating the terms of the transaction.

Stone Arcade Acquisition Corporation
(a development stage company)

Notes to Unaudited Financial Statements — (Continued)

NOTE G—FOUNDING STOCKHOLDERS

The Founding Stockholders have agreed with the representative of the underwriters, that within the first 40 trading days after the separate trading of the warrants has commenced, they or certain of their affiliates will collectively purchase up to 3,500,000 warrants in the public marketplace at prices not to exceed \$0.70 per warrant. They have further agreed that such warrants purchased by them or their affiliates will not be sold or transferred until the completion of a Business Combination.

NOTE H—COMMON STOCK RESERVED FOR ISSUANCE

At September 30, 2005, 43,000,000 shares of common stock were reserved for issuance upon exercise of warrants and the underwriter's option.

PART II - OTHER INFORMATION

Item 6. **EXHIBITS**

| (b) | Exhibits |
|-----|--|
| 31 | Rule 13a-14(a) Certification of Principal Executive Officer and Principal Financial Officer. |
| 32 | 18 U.S.C Section 1350 Certification. |

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STONE ARCADE ACQUISITION CORPORATION

December 12, 2006

By: /s/ Roger Stone

Roger Stone
Chairman of the Board and Chief Executive Officer

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