

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

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Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2006.

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)

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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 a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

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

There were 25,000,000 shares of the Registrant's Common Stock issued and outstanding on May 12, 2006.

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 March 31, 2006, initially filed with the Securities and Exchange Commission on May 12, 2006 (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.

Stone Arcade Acquisition Corporation Index to Form 10-Q/A

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

Stone Arcade Acquisition Corporation
(a development stage company)
Condensed Balance Sheet

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	March 31 2006 (unaudited)	December 31 2005
Assets		
Current assets:		
Cash	\$ 2,614,317	\$ 2,157,611
Cash and investments, held in trust	112,574,790	111,965,034
Prepaid expenses	77,325	128,875
Total current assets	115,266,432	114,251,520
Deferred income taxes	126,676	74,161
Total assets	\$ 115,393,108	\$ 114,325,681
Liabilities and Stockholders Equity		
Current liabilities:		
Accrued expenses	\$ 613,580	\$ 156,405
Deferred income taxes	9,351	90,521
Total current liabilities	622,931	246,926
Common stock, subject to possible redemption 3,998,000 shares	22,159,715	22,159,715
Deferred interest attributable to common stock subject to possible redemption (net of taxes of \$177,790)	345,121	189,462
	22,504,836	22,349,177
Commitments and contingencies (Note E)		
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	2,500
Additional paid-in capital	91,098,761	91,098,761
Income accumulated during the development stage	1,164,080	628,317
Total stockholders equity	92,265,341	91,729,578
Total liabilities and stockholders equity	\$ 115,393,108	\$ 114,325,681

See notes to condensed unaudited financial statements.

Stone Arcade Acquisition Corporation
(a development stage company)
Condensed Statement of Operations (unaudited)

	Three Months Ended March 31 2006	Accumulated Inception Through March 31 2006
Cost and expenses:		
Operating expenses	\$ 154,457	\$ 375,557
Other income:		
Bank interest	27,235	51,359
Interest income	1,179,830	2,615,864
Total other income	1,207,065	2,667,223
Income before provision for income taxes:	1,052,608	2,291,666
Provision for income taxes:		
Current	494,871	899,790
Deferred	(133,685)	(117,325)
Total provision for income taxes	361,186	782,465
Net income	691,422	1,509,201
Deferred interest, net of taxes, attributable to common stock subject to possible redemption	(155,659)	(345,121)
Net income allocable to holders of non-redeemable common stock	\$ 535,763	\$ 1,164,080
Weighted-average number of shares outstanding:		
Basic	25,000,000	17,800,000
Diluted	28,768,116	19,783,764
Earnings per share:		
Basic	\$ 0.03	\$ 0.08
Diluted	\$ 0.02	\$ 0.08
Weighted-average number of shares outstanding exclusive of shares subject to possible redemption:		
Basic	21,002,000	15,241,280
Diluted	24,770,116	17,225,044
Earnings per share exclusive shares and related deferred interest subject to possible redemption:		
Basic	\$ 0.03	\$ 0.08
Diluted	\$ 0.02	\$ 0.07

See notes to condensed unaudited financial statements.

Stone Arcade Acquisition Corporation
(a development stage company)
Condensed Statement of Cash Flows (unaudited)

	Three Months Ended March 31 2006	Accumulated Inception Through March 31 2006
Operating activities		
Net income	\$ 691,422	\$ 1,509,201
Changes in:		
Interest receivable on short-term investments	238,734	(27,505)
Prepaid expenses	51,550	(77,325)
Accrued expenses	457,175	613,580
Deferred income taxes	(133,685)	(117,325)
Net cash provided by operating activities	1,305,196	1,900,626
Investing activities		
Purchase of US Government Securities held in trust	(451,089,490)	(1,007,854,499)
Maturities of US Government Securities held in trust	450,241,000	895,307,214
Net cash used in investing activities	(848,490)	(112,547,285)
Cash flows provided by financing activities		
Proceeds from public offering, net of expenses		113,235,876
Proceeds from sale of common stock to founding shareholders		25,000
Proceeds from notes payable to stockholders		200,000
Repayment of notes to stockholders		(200,000)
Proceeds from issuance of underwriters' option		100
		113,260,976
Net increase in cash	456,706	2,614,317
Cash beginning of period	2,157,611	
Cash end of period	\$ 2,614,317	\$ 2,614,317

See notes to condensed unaudited financial statements.

Stone Arcade Acquisition Corporation
(a development stage company)
Notes to Condensed Unaudited Financial Statements

Note A. Basis of Presentation, Use of Estimates and Reclassifications

The accompanying unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included. The results of operations for the three month period ended March 31, 2006 are not necessarily indicative of the results to be expected for the year ending December 31, 2006.

The condensed balance sheet at December 31, 2005 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

Stone Arcade Acquisition Corporation
(a development stage company)
Notes to Condensed Unaudited Financial Statements (continued)

For further information, refer to the financial statements and footnotes thereto included in Stone Arcade Acquisition Corporation's annual report on Form 10-K for the year ended December 31, 2005.

Certain prior period amounts have been reclassified in order to conform to current year presentation.

Note B. Organization, Business Operations and Subsequent Events

Stone Arcade Acquisition Corporation was incorporated in Delaware on April 15, 2005. The Company was formed to serve as a vehicle for the acquisition through a merger, capital stock exchange, asset acquisition, or other similar business combination (Business Combination) of an operating business in the paper, packaging, forest products and related industries. 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 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 \$113,236,000. 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, \$112,574,790, including interest earned of \$2,615,864, less operating expenses and taxes, 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 interest income is subject to additional taxes incurred, but not yet paid, as of March 31, 2006. 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 and elect to redeem their shares, the Business Combination will not be consummated. If a majority of the shares voted at the meeting by public stockholders are voted in favor of the Business Combination and holders of less than 20 percent of the shares issued in the Offering vote against the Business Combination and elect to have their shares redeemed, the Business Combination will be consummated and the shares of such holders will be redeemed at the net offering price, approximately \$5.54, plus interest income allocable to such shares, net of income taxes. The number of shares subject to possible redemption is approximately 3,998,000. At March 31, 2006, the Company has classified approximately \$22,504,836 of the net proceeds from the Offering inclusive of interest, but net of taxes, as common stock subject to possible redemption in the accompanying balance sheet.

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 have been 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 such 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).

Note C. Initial Public Offering

On August 19, 2005, the Company sold 20,000,000 units (Units). Each Unit consisted 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,

Stone Arcade Acquisition Corporation
(a development stage company)
Notes to Condensed Unaudited Financial Statements (continued)

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 business 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 five 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 Offering, expires five years from the date of the Offering, 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.

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 Offering 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 has estimated, based upon a Black Scholes model, that the fair value of the purchase option on the date of sale was approximately \$980,000. The Company accounted for this purchase option, inclusive of the receipt of the \$100 cash payment, as an expense of the Offering resulting in a charge directly to stockholders' equity. Accordingly there was no impact in the Company's financial position or results of operations except for the recording of the \$100 proceeds from the sale.

In accordance with a commitment entered into in connection with the Offering, the Founding Stockholders have purchased 3,500,000 warrants in the public marketplace. They have further agreed that warrants purchased by them or their affiliates will not be sold or transferred until the completion of a Business Combination.

Note D. Related-Party Transactions

The Company has agreed to pay Stone-Kaplan Investments, LLC, an entity 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 administration 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 March 31, 2006, the amount paid to this entity was \$22,500.

The Founding Stockholders have agreed with the Company and the underwriters that if the Company liquidates prior to the consummation of a Business Combination, they will be personally liable to pay debts and obligations to vendors that are owed money by the Company for services rendered or products sold to us in excess of the net proceeds not held in the trust account at that time.

Stone Arcade Acquisition Corporation
(a development stage company)
Notes to Condensed Unaudited Financial Statements (continued)

Note E. Commitments and Contingencies

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.

Note F. Common Stock Reserved for Issuance

At March 31, 2006, 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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