

Capitol Acquisition Corp  
Form 10-Q  
August 13, 2008  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2008.

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 001-33769

**CAPITOL ACQUISITION CORP.**

(Exact Name of Registrant as Specified in Its Charter)

Edgar Filing: Capitol Acquisition Corp - Form 10-Q

**Delaware**  
(State or Other Jurisdiction of

**26-0435458**  
(I.R.S. Employer

**Incorporation or Organization)**

**Identification No.)**

**509 7<sup>TH</sup> Street, N.W., Washington, D.C., 20004**

**(Address of Principal Executive Offices) (Zip Code)**

**(202) 654-7060**

**(Registrant's Telephone Number, Including Area Code)**

**N/A**

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

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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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 August 11, 2008 there were 32,811,257 shares of common stock, par value \$.0001 per share, issued and outstanding.

**Table of Contents**

**CAPITOL ACQUISITION CORP.**

**FORM 10-Q**

**FOR THE QUARTER ENDED JUNE 30, 2008**

**INDEX**

	<b>Pages</b>
Part I. <u>Financial Information</u>	
Item 1. Financial Statements	
<u>Condensed Balance Sheets at June 30, 2008 (Unaudited) and December 31, 2007</u>	1
<u>Condensed Statements of Operations (Unaudited) for the three and six months ended June 30, 2008, and for the period June 26, 2007 (inception) through June 30, 2007, and for the period June 26, 2007 through June 30, 2008</u>	2
<u>Condensed Statement of Stockholders' Equity (Unaudited) for the period June 26, 2007 (inception) through June 30, 2008</u>	3
<u>Condensed Statements of Cash Flows (Unaudited) for the six months ended June 30, 2008, and for the period June 26, 2007 (inception) through June 30, 2007, and for the period June 26, 2007 (inception) through June 30, 2008</u>	4
<u>Notes to Unaudited Condensed Financial Statements</u>	5-16
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16-18
Item 3. <u>Quantitative and Qualitative Disclosures regarding Market Risk</u>	18-19
Item 4. <u>Controls and Procedures</u>	19
Part II. <u>Other Information</u>	
Item 1A. <u>Risk Factors</u>	20
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	20
Item 6. <u>Exhibits</u>	21
<u>Signature</u>	22

## **Table of Contents**

### **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 or our management's expectations, hopes, beliefs, intentions or strategies regarding the future. 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 anticipates, believe, continue, could, estimate, expect, intends, may, might, plan, possible, potential, predicts, 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 our initial business combination;*

*success in retaining or recruiting, or changes required in, our officers, key employees or directors following our initial business combination;*

*officers and directors allocating their time to other businesses and potentially having conflicts of interest with our business or in approving our initial business combination, as a result of which they would then receive expense reimbursements;*

*potential ability to obtain additional financing to complete our initial business combination;*

*pool of prospective target businesses;*

*the ability of our officers and directors to generate a number of potential investment opportunities;*

*potential change in control if we acquire one or more target businesses for stock;*

*our public securities potential liquidity and trading;*

*listing or delisting of our securities from the American Stock Exchange or the ability to have our securities listed on the American Stock Exchange following our initial business combination;*

*use of proceeds not held in the trust account 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 (refer to Part II, Item 1A). Should one or more of these risks or uncertainties*

## Edgar Filing: Capitol Acquisition Corp - Form 10-Q

*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 to we, us or our company Capitol Acquisition Corp. References to public stockholders refer to purchasers of our securities by persons other than our founders in, or subsequent to, our initial public offering.*

**Table of Contents****PART I FINANCIAL INFORMATION****CAPITOL ACQUISITION CORP.****(a development stage company)****CONDENSED BALANCE SHEETS**

	<b>June 30, 2008 (Unaudited)</b>	<b>December 31, 2007</b>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 1,653,940	\$ 461,475
Cash held in Trust Account interest income available for working capital and taxes	1,277,636	1,474,220
Prepaid corporate taxes	51,054	
Prepaid expenses	97,752	21,577
<b>Total current assets</b>	<b>3,080,382</b>	<b>1,957,272</b>
Other assets:		
Cash held in Trust Account restricted	258,346,625	258,346,625
<b>Total assets</b>	<b>\$ 261,427,007</b>	<b>\$ 260,303,897</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accrued expenses	\$ 137,170	\$ 78,207
Corporate income taxes payable		618,648
<b>Total liabilities</b>	<b>137,170</b>	<b>696,855</b>
Common stock, subject to possible conversion, 7,874,699 shares at conversion value	77,503,978	77,503,978
<b>Commitments and contingencies</b>		
Stockholders' equity:		
Preferred stock, \$0.0001 par value, authorized 1,000,000 shares; none issued or outstanding		
Common stock, \$0.0001 par value; authorized 75,000,000 shares; issued and outstanding 32,811,257 (less 7,874,699 subject to possible conversion)	2,494	2,494
Additional paid-in capital	181,385,997	181,385,997
Income accumulated during development stage	2,397,368	714,573
<b>Total stockholders' equity</b>	<b>183,785,859</b>	<b>182,103,064</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 261,427,007</b>	<b>\$ 260,303,897</b>

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

**Table of Contents****CAPITOL ACQUISITION CORP.****(a development stage company)****CONDENSED STATEMENTS OF OPERATIONS****(Unaudited)**

	For the three months ended June 30, 2008	For the six months ended June 30, 2008	For the period from June 26, 2007 (inception) through June 30, 2007	For the period from June 26, 2007 (inception) through June 30, 2008
Revenue	\$	\$	\$	\$
General and administrative expenses	266,757	550,769	1,000	691,768
Loss from operations	(266,757)	(550,769)	(1,000)	(691,768)
Interest income	869,053	3,103,862		4,578,082
Income before provision for income taxes	602,296	2,553,093	(1,000)	3,886,314
Provision for income taxes	207,027	870,298		1,488,946
Net income (loss)	\$ 395,269	\$ 1,682,795	\$ (1,000)	\$ 2,397,368
Weighted average number of common shares outstanding, excluding shares subject to possible conversion- basic and diluted	24,936,558	24,936,558	7,187,500	
Basic and diluted net income (loss) per share	\$ .02	\$ .07	\$ (0.00)	

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

**Table of Contents****CAPITOL ACQUISITION CORP.****(a development stage company)****CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY****FOR THE PERIOD JUNE 26, 2007 (INCEPTION) THROUGH JUNE 30, 2008****(UNAUDITED)**

	Common Stock		Additional	Income	Total
	Shares	Amount	Paid-in	During	Stockholders
		\$	Capital	Development	Equity
			\$	Stage	\$
Balance, June 26, 2007 (inception)		\$	\$		\$
Common shares issued at inception at \$0.003 per share	7,187,500	719	24,281		25,000
Sale of 25,000,000 units, net of Underwriters discount and offering expenses (includes 7,499,999 shares subject to possible conversion)	25,000,000	2,500	239,843,344		239,845,844
Exercise of Underwriter over-allotment, net of Underwriters discount and offering expenses (includes 374,700 shares subject to possible conversion)	1,249,000	125	12,021,500		12,021,625
Forfeiture of initial stockholders shares pursuant to partial exercise of Underwriters over-allotment	(625,243)	(62)	62		
Proceeds subject to possible conversion of 7,874,699 shares		(788)	(77,503,190)		(77,503,978)
Proceeds from issuance of Sponsors Warrants, at \$1 per warrant			7,000,000		7,000,000
Net income for the period from June 26, 2007 (inception) through December 31, 2007				714,573	714,573
Balance, December 31, 2007	32,811,257	2,494	181,385,997	714,573	182,103,064
Net income for the six months ended June 30, 2008				1,682,795	1,682,795
Balance, June 30, 2008 (Unaudited)	32,811,257	\$ 2,494	\$ 181,385,997	\$ 2,397,368	\$ 183,785,859

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



**Table of Contents****CAPITOL ACQUISITION CORP.****(a development stage company)****CONDENSED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

	For the six months ended June 30, 2008	For the period from June 26, 2007 (inception) through June 30, 2007	For the period from June 26, 2007 (inception) through June 30, 2008
<b>Cash Flows from Operating Activities</b>			
Net Income (loss)	\$ 1,682,795	\$ (1,000)	\$ 2,397,368
Adjustments to reconcile net income to net cash provided by operating activities:			
Changes in operating assets and liabilities:			
Increase in prepaid expenses	(76,175)		(97,752)
Increase in prepaid corporate taxes	(51,054)		(51,054)
(Decrease) in corporate taxes payable	(618,648)		
Increase in accrued expenses	58,963	1,000	137,170
Net cash provided by operating activities	995,881		2,385,732
<b>Cash Flows from Investing Activities</b>			
Cash held in Trust Account restricted			(258,346,625)
Cash held in Trust Account dividend and interest income available for working capital and taxes	196,584		(1,277,636)
Net cash provided by (used in) investing activities	196,584		(259,624,261)
<b>Cash Flows from Financing Activities</b>			
Gross proceeds from initial public offering			250,000,000
Gross proceeds from exercise of underwriter over-allotment			12,490,000
Proceeds from notes payable, stockholders			95,000
Repayment of notes payable, stockholders			(95,000)
Proceeds from issuance of stock to initial stockholders			25,000
Proceeds from issuance of sponsors warrants			7,000,000
Payment of underwriting discount and offering costs			(10,622,531)
Net cash provided by financing activities			258,892,469
Net increase in cash	1,192,465		1,653,940
Cash at beginning of the period	461,475		
Cash at end of the period	\$ 1,653,940	\$	\$ 1,653,940

**Supplemental Disclosure of Cash Flow Information:**

Cash paid during the period for: Income taxes	\$ 1,540,000	\$	\$ 1,540,000
---	--------------	----	--------------

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



**Table of Contents**

**CAPITOL ACQUISITION CORP.**

**(a development stage company)**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 1: INTERIM FINANCIAL INFORMATION**

These unaudited, condensed interim financial statements as of June 30, 2008, and for the three and six month periods ending June 30, 2008, and for the periods from June 26, 2007 (inception) through June 30, 2007 and from June 26, 2007 (inception) through June 30, 2008, have been prepared in accordance with accounting principles generally accepted in the United States of America, for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results to be expected for any other interim period or for the full year.

These unaudited condensed interim financial statements should be read in conjunction with the audited financial statements and notes thereto as of December 31, 2007, and for the period ended December 31, 2007 included in Capitol Acquisition Corp.'s Form 10-K filed on March 31, 2008. The accounting policies used in preparing these unaudited condensed interim financial statements are consistent with those described in the December 31, 2007 financial statements.

**NOTE 2: BUSINESS OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES ORGANIZATION**

Capitol Acquisition Corp. (the "Company") was incorporated in Delaware on June 26, 2007 as a blank check company formed for the purpose of acquiring, through a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination, one or more operating businesses or assets (a "Business Combination").

The Company has selected December 31 as its fiscal year end.

On October 12, 2007, the Company declared a stock dividend of 0.25 shares of common stock for each share of outstanding common stock. All references in the accompanying financial statements to the common shares and per share amounts have been retroactively restated to reflect the stock dividend. There was no net effect on stockholders' equity. (See Note 8)

All of the Company's activity from June 26, 2007 (inception) through November 14, 2007 relates to the Company's formation and the public offering, described below. All activity from November 14, 2007 through June 30, 2008 relates to the Company's search for an acquisition target.

The registration statement for the Company's initial public offering ("Offering") was declared effective on November 8, 2007. The Company consummated the Offering on November 14, 2007 and received net proceeds of \$239,845,844 and \$7,000,000 from the sale of the sponsor warrants on a private placement basis (See Note 3).

On December 12, 2007, the Company completed the sale of an additional 1,249,000 units pursuant to the over-allotment option that was granted to the underwriters in the Offering at a price of \$10.00 per unit and received net proceeds of \$12,021,625. The Offering, including the exercise of the over-allotment option, generated total gross proceeds of \$262,490,000, excluding the proceeds from the offering of the 7,000,000 warrants on a private basis to the existing stockholders. In addition to the underwriters' discounts of \$9,843,375 (3.75%) paid out of the gross proceeds, the underwriters are entitled to an additional payment of a portion of the underwriting discount equal to 3.25% of the gross proceeds (\$8,530,925) that they agreed to defer. This deferred amount will be held in trust and will not be released until the earlier to occur of (i) the completion of an initial business combination or (ii) the Company's liquidation, in which case such proceeds will be distributed to the public stockholders, together with all other funds held in the trust account.

---

**Table of Contents**

**CAPITOL ACQUISITION CORP.**

**(a development stage company)**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 2: BUSINESS OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES ORGANIZATION (Continued)**

The Company's management has broad discretion with respect to the specific application of the net proceeds of the Offering, although the Company's initial Business Combination must be with one or more target businesses having an aggregate fair market value of at least 80% of the balance in the trust account (excluding deferred underwriting discounts and commissions) at the time of such acquisition. There is no assurance that the Company will be able to successfully effect a Business Combination. An amount of \$258,346,625 or approximately \$9.84 per Unit of the net proceeds of the Offering (including 1,249,000 units pursuant to the over-allotment option) and the sale of the Sponsors' Warrants (see Note 3) is being held in a trust account ( "Trust Account" ) and must be invested in United States government securities within the meaning of Section 2(a) (16) of the Investment Company Act of 1940 having a maturity of 180 days or less or in money market funds meeting certain conditions under Rule 2a-7 promulgated under the Investment Company Act of 1940 until the earlier of (i) the consummation of an initial Business Combination or (ii) liquidation of the Company. As of June 30, 2008, the funds in the Trust Account have been invested in a money market mutual fund that invests all its assets in direct obligations of the U.S. Treasury.

The placing of funds in the Trust Account may not protect those funds from third party claims against the Company. Although the Company is required to have all third parties and any prospective target businesses enter into valid and enforceable agreements with the Company waiving any right, title, interest or claim of any kind in or to any monies held in the Trust Account, there is no guarantee that they will execute such agreements. Mark D. Ein, the Company's Chief Executive Officer, has agreed that he will be personally liable to ensure that the proceeds in the Trust Account are not reduced by the claims of prospective target businesses or claims of vendors or other entities that are owed money by the company for services rendered or contracted for or products sold to the company. However, this agreement entered into by Mr. Ein specifically provides for two exceptions to the personal indemnity he has given: Mr. Ein will have no personal liability (1) as to any claimed amounts owed to a target business or vendor or other entity who has executed a valid and enforceable agreement with the Company waiving any right, title, interest or claim of any kind they may have in or to any monies held in the Trust Account, or (2) as to any claims under the Company's indemnity with the underwriters of the Offering against certain liabilities, including liabilities under the Securities Act. However, the Company cannot assure you that he will be able to satisfy his indemnification obligations.

The remaining net proceeds (not held in the Trust Account) may be used to pay for business, legal and accounting due diligence on prospective acquisitions and continuing general and administrative expenses. Except with respect to interest income that may be released to the Company of (i) up to \$3,250,000 (net of tax, if any, payable by the Company with respect to such interest) to fund expenses related to investigating and selecting a prospective target business and the Company's other working capital requirements and (ii) any additional amounts needed to pay income or other tax obligations, the proceeds held in trust will not be released from the Trust Account until the earlier of the completion of a Business Combination or the Company's liquidation.

The Company, after signing a definitive agreement for a Business Combination with a target business or businesses, is required to submit such transaction for stockholder approval. Pursuant to the Company's certificate of incorporation ( "Certificate of Incorporation" ), in the event that the stockholders owning 30% or more of the shares sold in the Offering vote against the Business Combination and exercise their conversion rights described below, the Business Combination will not be consummated. All of the Company's stockholders prior to the Offering, including all of the officers, directors and special advisors of the Company ( "Initial Stockholders" ) have agreed to vote all of their founders' common stock (the "Founders' Common Stock" ) in accordance with the vote of the majority in interest of all other stockholders of the Company ( "Public Stockholders" ) with respect to any Business Combination. After consummation of a Business Combination, these voting safeguards will no longer apply.

**Table of Contents**

**CAPITOL ACQUISITION CORP.**

**(a development stage company)**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 2: BUSINESS OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES ORGANIZATION (Continued)**

With respect to a Business Combination which is approved and consummated, any Public Stockholder who voted against the Business Combination may demand that the Company convert his or her shares into cash from the Trust Account. The per share conversion price will equal the amount in the Trust Account, calculated as of two business days prior to the consummation of the proposed Business Combination, divided by the number of shares of common stock held by Public Stockholders at the consummation of Offering. Public Stockholders holding up to 30% of the aggregate number of shares owned by all Public Stockholders (minus one share) may seek conversion of their shares in the event of a Business Combination. Such Public Stockholders are entitled to receive their per share interest in the Trust Account computed without regard to the shares held by Initial Stockholders.

The Certificate of Incorporation was amended prior to the Offering to increase the number of authorized shares from 50,000,000 to 75,000,000 and to provide that the Company will continue in existence only until November 8, 2009. If the Company has not completed a Business Combination by such date, its corporate existence will cease except for the purposes of liquidating and winding up its affairs. In the event of liquidation, it is possible that the per share value of the residual assets remaining available for distribution (including Trust Account assets) will be less than the initial public offering price per Unit in the Offering.

The Initial Stockholders have waived their rights to participate in any liquidation distribution, but only with respect to the Founders' Common Stock; they will participate in any liquidation distribution with respect to any shares of common stock acquired in connection with or following the Offering.

***Cash held in Trust Account restricted:***

The Company considers the restricted portion of the funds held in the Trust Account as being a non-current asset. A current asset is one that is reasonably expected to be used to pay current liabilities, such as accounts payable or short-term debt or to pay current operating expenses, or will be used to acquire other current assets. Since the acquisition of a business is principally considered to be a long-term purpose, with long-term assets such as property and intangibles, typically being a major part of the acquired assets, the Company has reported the funds anticipated to be used in the acquisition as a non-current asset.

***Accretion of Trust Account relating to common stock subject to possible conversion:***

The Company records accretion of the income earned in the trust account relating to the common stock subject to possible conversion based on the excess of the earnings for the period over the amount which is available to be used for working capital and taxes. Since 30% (less one share) of the shares issued in the Offering are subject to possible conversion, the portion of the excess earnings related to those shares are reflected on the balance sheet as part of Common stock subject to possible conversion and is deducted from Additional paid-in capital. The portion of the excess earnings is also presented as a deduction from the net income on the Statements of Income to appropriately reflect the amount of net income which would remain available to the common stockholders who did not elect to convert their shares to cash. As at June 30, 2008 there was no accretion of income due to stockholders.

***Earnings Per Share:***

The Company follows the provisions of Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per Share. In accordance with SFAS No. 128, earnings per common share amounts (Basic EPS) are computed by dividing earnings by the weighted average number of common shares outstanding for the period.



**Table of Contents**

**CAPITOL ACQUISITION CORP.**

**(a development stage company)**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 2: BUSINESS OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES ORGANIZATION (Continued)**

***Earnings Per Share (continued):***

Common shares subject to possible conversion of 7,874,699 have been excluded from the calculation of basic earnings per share since such shares, if redeemed, only participate in their pro rata shares of the trust earnings.

Earnings per common share amounts, assuming dilution ( Diluted EPS ), gives effect to dilutive options, warrants, and other potential common stock outstanding during the period. SFAS No. 128 requires the presentation of both Basic EPS and Diluted EPS on the face of the statements of income. In accordance with SFAS No. 128, the Company has not considered the effect of its outstanding Warrants in the calculation of diluted earnings per share since the exercise of the Warrants is contingent upon the occurrence of future events.

***Stock Based Compensation:***

The Company accounts for stock options and warrants using the fair value recognition provisions of Statement of Financial Accounting Standards ( SFAS ) No. 123 (Revised 2004), Share-Based Payment, ( SFAS 123(R) ). SFAS 123(R) addresses all forms of share based compensation awards including shares issued under employment stock purchase plans, stock options, restricted stock and stock appreciation rights. Under SFAS 123(R), share based payment awards will be measured at fair value on the awards grant date, based on the estimated number of awards that are expected to vest and will be reflected as compensation expense in the financial statements.

***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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

***Cash and Cash Equivalents:***

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents are carried at cost, which approximates fair value.

SFAS No. 105, Disclosure of Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentration of Credit Risk , requires disclosure of significant concentrations of credit risk regardless of the degree of risk. At June 30, 2008, financial instruments that potentially expose the Company to credit risk consist of cash. The Company maintains its cash balances in various financial institutions. The Federal Deposit Insurance Corporation insures balances in bank accounts up to \$100,000 and the Securities Investor Protection Corporation insures balances up to \$500,000 in brokerage accounts. The Company had \$1,663,829 in a bank account and \$259,624,261 in a brokerage account.

***Offering Costs:***

Offering costs consist of underwriters' discount, legal fees, printing costs and travel expenses that are related to the Offering and were charged to capital at the time of the closing of the Offering.





**Table of Contents**

**CAPITOL ACQUISITION CORP.**

**(a development stage company)**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 2: BUSINESS OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES ORGANIZATION (Continued)**

***Recently Issued and Adopted Accounting Pronouncements:***

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 establishes a single definition of fair value and a framework for measuring fair value, sets out a fair value hierarchy to be used to classify the source of information used in fair value measurements, and requires new disclosures of assets and liabilities measured at fair value based on their level in the hierarchy. This statement applies under other accounting pronouncements that require or permit fair value measurements. In February 2008, the FASB issued Staff Positions (FSPs) No. 157-1 and No. 157-2, which respectively, remove leasing transactions from the scope of SFAS No. 157 and defer its effective date for one year relative to certain nonfinancial assets and liabilities. As a result, the application of the definition of fair value and related disclosures of SFAS No. 157 (as impacted by these two FSPs) was effective for the Company beginning January 1, 2008 on a prospective basis with respect to fair value measurements of (a) nonfinancial assets and liabilities that are recognized or disclosed at fair value in the Company's financial statements on a recurring basis (at least annually) and (b) all financial assets and liabilities. This adoption did not have a material impact on the Company's results of operations or financial condition. The remaining aspects of SFAS No. 157 for which the effective date was deferred under FSP No. 157-2 are currently being evaluated by the company. Areas impacted by the deferral relate to nonfinancial assets and liabilities that are measured at fair value, but are recognized or disclosed at fair value on a nonrecurring basis. This deferral applies to such items as nonfinancial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) or nonfinancial long-lived asset groups measured at fair value for an impairment assessment. The effects of these remaining aspects of SFAS No. 157 are to be applied to fair value measurements prospectively beginning January 1, 2009. The Company does not expect them to have a material impact on the Company's results of operations or financial condition.

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Accounting Standards (SFAS) No. 159 The Fair Value Option for Financial Assets and Financial Liabilities- Including an amendment of FASB Statement No. 115 (SFAS No. 159), which permits entities to choose to measure many financial instruments and certain other items at fair value. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Adoption is required for fiscal years beginning after November 15, 2007. The adoption did not have a material impact on the Company's financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R changes accounting for acquisitions that close beginning in 2009 in a number of areas including the treatment of contingent consideration, contingencies, acquisition costs, in-process research and development and restructuring costs. More transactions and events will qualify as business combinations and will be accounted for at fair value under the new standard. SFAS 141R promotes greater use of fair values in financial reporting. In addition, under SFAS 141R, changes in deferred tax asset valuation allowances and acquired income tax uncertainties in a business combination after the measurement period will impact income tax expense. Some of the changes will introduce more volatility into earnings. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008. SFAS 141R will have an impact on accounting for any business acquired after the effective date of this pronouncement.

---

**Table of Contents**

**CAPITOL ACQUISITION CORP.**

**(a development stage company)**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 2: BUSINESS OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES ORGANIZATION (Continued)**

***Recently Issued and Adopted Accounting Pronouncements (continued):***

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* ( SFAS 160 ). SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. This new consolidation method will significantly change the accounting for transactions with minority interest holders. SFAS 160 is effective for fiscal years beginning after December 15, 2008. SFAS 160 would have an impact on the presentation and disclosure of the noncontrolling interests of any non-wholly owned business acquired in the future.

In December 2007, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 110 ( SAB 110 ). SAB 110 amends and replaces Question 6 of Section D.2 of Topic 14, Share-Based Payment of the Staff Accounting Bulletin series. Question 6 of Section D.2 of Topic 14 expresses the views of the staff regarding the use of the simplified method in developing an estimate of the expected term of plain vanilla share options and allows usage of that method for option grants prior to December 31, 2007. SAB 110 allows public companies which do not have sufficient historical experience to provide a reasonable estimate to continue the use of this method for estimating the expected term of plain vanilla share option grants after December 31, 2007. The adoption of this pronouncement by the Company in fiscal 2008 has not had an effect on its financial statements.

In February 2008, the FASB issued Staff Position No. FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*, which provides guidance on accounting for a transfer of a financial asset and a repurchase financing. This accounting guidance presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (linked transaction) under SFAS No. 140. However, if certain criteria are met, the initial transfer and repurchase financing shall be evaluated separately under SFAS No. 140. Staff Position No. FAS 140-3 will be effective for financial statements issued for fiscal years beginning after November 15, 2008, and for interim periods within those fiscal years. Early adoption is prohibited. Management is evaluating the potential effect this guidance may have on the Company's financial condition and results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133, (SFAS 161) as amended and interpreted, which requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. Disclosing the fair values of derivative instruments and their gains and losses in a tabular format provides a more complete picture of the location in an entity's financial statements of both the derivative positions existing at period end and the effect of using derivatives during the reporting period. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Early adoption is permitted, but not expected. Management is evaluating the potential effect this guidance may have on the Company's financial condition and results of operations.

In April 2008, the FASB issued FSP FAS No. 142-3, which amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset under FAS No. 142, *Goodwill and Other Intangible Assets*. The FSP requires an entity



---

**Table of Contents**

**CAPITOL ACQUISITION CORP.**

**(a development stage company)**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 2: BUSINESS OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES ORGANIZATION (Continued)**

***Recently Issued and Adopted Accounting Pronouncements (continued):***

to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset, and is an attempt to improve consistency between the useful life of a recognized intangible asset under FAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under FAS No. 141, Business Combinations. The FSP is effective for fiscal years beginning after December 15, 2008, and the guidance for determining the useful life of a recognized intangible asset must be applied prospectively to intangible assets acquired after the effective date. The FSP is not expected to have a significant impact on the Company's financial condition and results of operations.

In May 2008, the FASB issued Financial Accounting Standard (FAS) No. 162, The Hierarchy of Generally Accepted Accounting Principles. The statement is intended to improve financial reporting by identifying a consistent hierarchy for selecting accounting principles to be used in preparing financial statements that are prepared in conformance with generally accepted accounting principles. Unlike Statement on Auditing Standards (SAS) No. 69, The Meaning of Present in Conformity With GAAP, FAS No. 162 is directed to the entity rather than the auditor. The statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, The Meaning of Present Fairly in Conformity with GAAP, and is not expected to have any impact on the Company's financial condition and results of operations.

In June 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) Emerging Issues Task Force (EITF) No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. Under the FSP, unvested share-based payment awards that contain rights to receive nonforfeitable dividends (whether paid or unpaid) are participating securities, and should be included in the two-class method of computing EPS. The FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years, and is not expected to have a significant impact on the Company's financial condition and results of operations.

Management does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

**NOTE 3: INITIAL PUBLIC OFFERING**

On November 14, 2007, the Company sold 25,000,000 Units at the offering price of \$10.00 per Unit. Each Unit consists of one share of the Company's common stock and one Redeemable Common Stock Purchase Warrant (Warrant). Each Warrant entitles the holder to purchase from the Company one share of common stock at an exercise price of \$7.50 commencing the later of the completion of a Business Combination or November 8, 2008 and expiring November 8, 2012. The Company may redeem the Warrants, at a price of \$0.01 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 \$14.25 per share for any 20 trading days within a 30 trading day period ending on the third day prior to the date on which the notice of redemption is given. In accordance with the warrant agreement relating to the Warrants sold and issued in the Offering, the Company is only required to use its best efforts to maintain the effectiveness of the registration statement covering the Warrants. The Company will not be obligated to deliver securities, and there are no contractual penalties for failure to deliver securities, if a registration statement is not effective at the time of

---

**Table of Contents**

**CAPITOL ACQUISITION CORP.**

**(a development stage company)**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 3: INITIAL PUBLIC OFFERING (continued)**

exercise. Additionally, in the event that a registration statement is not effective at the time of exercise, the holder of such Warrant shall not be entitled to exercise such Warrant and in no event (whether in the case of a registration statement not being effective or otherwise) will the Company be required to net cash settle the warrant exercise. Consequently, the Warrants may expire unexercised and unredeemed.

On December 12, 2007, the Company completed the sale of an additional 1,249,000 units pursuant to the over-allotment option that was granted to the underwriters in the Offering at a price of \$10.00 per unit. An additional amount of \$12,021,625 (net of a portion of the underwriters discount of \$468,375) was placed in the Trust Account.

The Offering, including the exercise of the over-allotment option, generated total gross proceeds of \$262,490,000, excluding the proceeds from the offering of the 7,000,000 warrants on a private basis to the existing stockholders. In addition to the underwriters discount of \$9,843,375 (3.75%) paid out of the gross proceeds, the underwriters are entitled to an additional payout of a portion of the underwriting discount equal to 3.25% of the gross proceeds (\$8,530,925) that they agreed to defer. This deferred amount will be held in trust and not released until the earlier of (i) the completion of an initial Business Combination or (ii) the Company's liquidation, in which case such proceeds will be distributed to the public stockholders together with all other funds held in the Trust Account. The underwriters have waived their right to receive payment of the 3.25% of the gross proceeds upon the Company's liquidation if it is unable to complete a Business Combination.

Pursuant to subscription agreements dated October 12, 2007, certain of the Initial Stockholders purchased from the Company, in the aggregate, 7,000,000 warrants for \$7,000,000 (the Sponsors' Warrants). The purchase and issuance of the Sponsors' Warrants occurred simultaneously with the consummation of the Offering on a private placement basis. All of the proceeds the Company received from these purchases were placed in the Trust Account. The Company did not pay any discount related to the warrants sold in the private placement.

The Sponsors' Warrants are identical to the Warrants included in the Units sold in the Offering, except that (i) the Sponsors' Warrants are non-redeemable and exercisable on a cashless basis so long as they are held by any of the sponsors or their permitted transferees and (ii) will not be exercisable while they are subject to certain transfer restrictions. If the Company does not complete a Business Combination then the \$7,000,000 will be part of the liquidating distribution to the Company's public stockholders, and the Sponsors' Warrants will expire worthless. The purchasers of the Sponsors' Warrants have agreed that the Sponsors' Warrants will not be sold or transferred by them until after the Company has completed a Business Combination.

Pursuant to a Registration Rights Agreement dated November 8, 2007, the Initial Stockholders and holders of the Sponsors' Warrants (or underlying securities) are entitled to registration rights with respect to the Founders' Common Stock or Sponsors' Warrants (or underlying securities), as the case may be. The holders of the majority of the Founders' Common Stock are entitled to elect to exercise these registration rights at any time commencing three months prior to the date on which the Founders' Common Stock is to be released from escrow. The holders of the Sponsors' Warrants (or underlying securities) are entitled to demand that the Company register such securities at any time 90 days after the Company consummates a Business Combination. In addition, the Initial Stockholders and holders of the Sponsors' Warrants (or underlying securities) have certain piggyback registration rights on registration statements filed after the Company's consummation of a Business Combination.

**NOTE 4: INCOME TAXES**

On June 26, 2007, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes, and prescribes a



**Table of Contents****CAPITOL ACQUISITION CORP.****(a development stage company)****NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)****NOTE 4: INCOME TAXES (continued)**

recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company has identified only its federal tax return as a major tax jurisdiction. Based on the Company's evaluation, it has concluded that there are no significant uncertain tax positions requiring recognition in the Company's financial statements. Since the Company was incorporated on June 26, 2007 the evaluation was performed for the 2007 tax year which is the only period subject to examination. The Company believes that its income tax positions and deductions would be sustained on audit and does not anticipate any adjustments that would result in a material change to its financial position.

The Company's policy for recording interest and penalties associated with audits is to record such items as a component of income tax expense. There were no amounts accrued for penalties or interest as of or during the period from June 26, 2007 (inception) through June 30, 2008. The Company does not expect its unrecognized tax benefit position to change during the next twelve months. Management is currently unaware of any issues under review that could result in significant payments, accruals or material deviations from its position. The adoption of the provisions of FIN 48 did not have a material impact on the Company's financial position, results of operations and cash flows.

Corporate Federal taxes (prepaid) payable consisted of the following:

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Federal income tax (prepaid) payable	\$ (51,054)	\$ 618,648

The provision for income tax consists of the following:

	<b>For the three months ended June 30, 2008</b>	<b>For the six months ended June 30, 2008</b>	<b>For the period from June 26, 2007 (inception) through June 30, 2007</b>	<b>For the period from June 26, 2007 (inception) through June 30, 2008</b>
Current:				
Federal	\$ 207,027	\$ 870,298	\$	\$ 1,488,946
State and local				
Total provision for income taxes	\$ 207,027	\$ 870,298	\$	\$ 1,488,946





**Table of Contents****CAPITOL ACQUISITION CORP.****(a development stage company)****NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)****NOTE 4: INCOME TAXES (continued)**

Deferred income taxes, if applicable, are provided for the differences between the basis of assets and liabilities for financial reporting and income tax purposes. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized. There are no deferred tax assets or liabilities as of June 30, 2008.

A reconciliation of the provision for income taxes with the amounts computed by applying the statutory Federal income tax rate to income from continuing operations before provision for income taxes is as follows:

	For the three months ended June 30, 2008	For the six months ended June 30, 2008	For the period from June 26, 2007 (inception) through June 30, 2007
Tax provision at statutory rate	34%	34%	%
State and local taxes (net of federal tax benefit)			
Effect of adjustments and non-deductible items			
Effective tax rate	34%	34%	%

**NOTE 5: COMMITMENTS AND CONTINGENCIES**

The Company utilizes administrative services provided by Venturehouse Group LLC ( "Venturehouse" ), an affiliate of Mark D. Ein, the Company's Chief Executive Officer. Venturehouse will make available, until the Company consummates a Business Combination, such administrative services, as may be required by the Company from time to time. These services will be provided at no cost to the Company.

The Company has a commitment to pay the remaining underwriting discount representing 3.25% of the gross proceeds from the Offering that will be deferred until the Company consummates a Business Combination

On February 7, 2008, the Company entered into two consulting arrangements for services to help identify and introduce the Company to potential targets and provide assistance with due diligence, transaction structuring, and documentation for a Business Combination. The agreements provide for maximum aggregate fees of \$350,000 per year and success fees upon the closing of a Business Combination (the "Closing Date") of \$400,000, plus the issuance of 5-year options to purchase a total of 75,000 shares of the Company's common stock at an exercise price equal to the closing price of the stock on the Closing Date, in all cases subject to adjustment in the event the agreements are terminated pursuant to their terms.

Pursuant to letter agreements with the Company, effective upon consummation of the Offering, the Initial Stockholders have waived their right to receive distributions with respect to the Founders' Common Stock upon the Company's liquidation. They will participate in any liquidation distribution with respect to any shares of common stock acquired in connection with or following the Company's Offering.

## Edgar Filing: Capitol Acquisition Corp - Form 10-Q

Pursuant to subscription agreements dated October 12, 2007, certain of the Company's officers, directors and special advisors agreed to purchase from the Company, in the aggregate,

**Table of Contents**

**CAPITOL ACQUISITION CORP.**

**(a development stage company)**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 5: COMMITMENTS AND CONTINGENCIES (continued)**

7,000,000 warrants for \$7,000,000 (the Sponsors Warrants ). The purchase and issuance of the Sponsors Warrants occurred simultaneously with the consummation of the Offering but was sold on a private placement basis. Management believes the purchase price of these warrants approximates the fair value of such warrants at the time of issuance. The proceeds the Company received from these purchases was placed in the Trust Account.

The Sponsors Warrants are identical to the warrants included in the units sold in the offering, except the Sponsors Warrants will not be transferable or salable by the purchasers of these warrants (subject to certain limited circumstances) until the Company completes a Business Combination, and will be exercisable on a cashless basis and will be non-redeemable by the Company, in each case, so long as they are held by the purchasers or their permitted transferees. If the Company does not complete such a Business Combination then the \$7,000,000 will be part of the liquidation distribution to the Public Stockholders and the warrants will expire worthless.

The Initial Stockholders and holders of the Sponsors Warrants (or underlying securities) are entitled to registration rights with respect to the Founders Common Stock or Sponsors Warrants (or underlying securities), as the case may be, pursuant to an agreement signed on the effective date of the Offering. The holders of the majority of the Founders Common Stock are entitled to elect to exercise these registration rights at any time commencing nine months after the consummation of our Business Combination. The holders of the Sponsors Warrants (or underlying securities) are entitled to demand that the Company register such securities at any time 30 days after the Company consummates a Business Combination. In addition, the Initial Stockholders and holders of the Sponsors Warrants (or underlying securities) have certain piggyback registration rights on registration statements filed after the Company's consummation of a Business Combination.

**NOTE 6: PREFERRED STOCK**

The Company is authorized to issue 1,000,000 shares of preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors.

The Certificate of Incorporation prohibits the Company, prior to a Business Combination, from issuing preferred stock which participates in the proceeds of the Trust Account or which votes as a class with the common stock on a Business Combination.

**NOTE 7: COMMON STOCK**

The Company was initially authorized to issue 50,000,000 shares of common stock with a par value of \$.0001 per share. The Company's Certificate of Incorporation was amended prior to the completion of the public offering to increase the number of authorized shares of common stock from 50,000,000 to 75,000,000.

On July 26, 2007, the Company issued 5,750,000 shares of common stock to its Initial Stockholders, for \$25,000 in cash, at a purchase price of approximately \$0.004 per share. Effective October 12, 2007, the Company's Board of Directors authorized a stock dividend of 0.25 shares of common stock for each outstanding share of common stock, leaving the Company with 7,187,500 shares of common stock outstanding. All references to the number of shares of common stock have been retroactively restated to reflect this transaction.

On November 14, 2007, the Company issued 25,000,000 units at the offering price of \$10.00 per unit. Each unit consists of one share of the Company's common stock and one Redeemable Common Stock Purchase Warrant.

On December 7, 2007, the underwriters exercised a portion of its over-allotment option (1,249,000 units) at a price of \$10.00 per unit.



**Table of Contents**

**CAPITOL ACQUISITION CORP.**

**(a development stage company)**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 7: COMMON STOCK (continued)**

As a result of the partial exercise of the over-allotment option and the expiration of the remaining over-allotment option, the initial stockholders forfeited a total of 625,243 shares. The purpose of this contribution was to maintain the equity ownership interest of the Initial Stockholders at 20% of the total outstanding shares of common stock after issuance of the over-allotment option. There were 33,249,000 shares of common stock reserved for issuance upon exercise of Warrants and the Sponsors' Warrants.

**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion should be read in conjunction with our unaudited Condensed Interim Financial Statements and footnotes thereto contained in this report.

**Forward Looking Statements**

All statements other than statements of historical fact included in this Form 10-Q including, without limitation, statements under Management's Discussion and Analysis of Financial Condition and Results of Operations regarding our financial position, business strategy and the plans and objectives of management for future operations, are forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this Form 10-Q, words such as anticipate, believe, estimate, expect, intend and similar expressions, as they relate to us or our management, identify forward looking statements. Such forward looking statements are based on the beliefs of management, as well as assumptions made by, and information currently available to, our management. Actual results could differ materially from those contemplated by the forward looking statements as a result of certain factors detailed in our filings with the Securities and Exchange Commission. All subsequent written or oral forward looking statements attributable to us or persons acting on our behalf are qualified in their entirety by this paragraph.

**Overview**

We are a blank check company formed under the laws of the State of Delaware on June 26, 2007 to effect a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses or assets. We intend to effect an initial Business Combination using cash from the proceeds of our completed initial public offering, including the exercise of the underwriters' over-allotment option, and the private placements of the Sponsors' Warrants, our capital stock, debt or a combination of cash, stock and debt. On November 14, 2007, we completed our initial public offering of 25,000,000 units at a price of \$10.00 per unit. We received net proceeds of approximately \$239.8 million from our initial public offering.

Pursuant to subscription agreements dated October 12, 2007, certain of the Company's officers, directors and special advisors purchased from the Company, in the aggregate, 7,000,000 Sponsors' Warrants for \$7,000,000. The purchase and issuance of the Sponsors' Warrants occurred simultaneously with consummation of the initial public offering on a private placement basis. All of the proceeds we received from these purchases were placed in the Trust Account.

On November 14, 2007, the Company sold 25,000,000 Units at the offering price of \$10.00 per Unit. Each Unit consists of one share of the Company's common stock and one Redeemable Common Stock Purchase Warrant ("Warrant"). Each Warrant will entitle the holder to purchase from the Company one share of common stock at an exercise price of \$7.50 commencing the later of the completion of a Business Combination or November 8, 2008.



## **Table of Contents**

and expiring November 8, 2012. The Company may redeem the Warrants, at a price of \$0.01 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 \$14.25 per share for any 20 trading days within a 30 trading day period ending on the third day prior to the date on which the notice of redemption is given. In accordance with the warrant agreement relating to the Warrants sold and issued in the Offering, the Company is only required to use its best efforts to maintain the effectiveness of the registration statement covering the Warrants. The Company will not be obligated to deliver securities, and there are no contractual penalties for failure to deliver securities, if a registration statement is not effective at the time of exercise. Additionally, in the event that a registration is not effective at the time of exercise, the holder of such Warrant shall not be entitled to exercise such Warrant and in no event (whether in the case of a registration statement not being effective or otherwise) will the Company be required to net cash settle the warrant exercise. Consequently, the Warrants may expire unexercised and unredeemed.

We received proceeds of \$12,021,625, net of underwriting discounts of \$468,375, on December 12, 2007, as a result of the underwriters exercising their over-allotment option of 1,249,000 units.

## **Results of Operations and Known Trends or Future Events**

For the three and six months ended June 30, 2008, we had net income of \$395,269 and \$1,682,795 after a provision for income taxes of \$207,027 and \$870,298 and for the period from June 26, 2007 (inception) through June 30, 2008, we had net income of \$2,397,368 after a provision for income taxes of \$1,488,946, respectively. For the period from June 26, 2007 (inception) through June 30, 2007 we had a net loss of \$1,000. We incurred operating expenses for the three and six months ended June 30, 2008 and the period from June 26, 2007 (inception) through June 30, 2008, of \$266,757, \$550,769 and \$691,768, respectively. These costs consisted primarily of professional and consulting fees, insurance, and Delaware franchise taxes. There was \$1,000 of organizational costs incurred from June 26, 2007 through June 30, 2007.

Our activity from June 26, 2007 (inception) through November 14, 2007 was to prepare for our initial public offering. Since November 15, 2007 our efforts have been devoted to identifying an acquisition candidate. We believe that we have sufficient funds available to complete our efforts to affect a business combination with an operating business by November 8, 2009. We are allowed to have released to us up to \$3,250,000 of the interest earned in the Trust Account (net of applicable taxes, if any) for working capital purposes during our search for an initial Business Combination. However, there is no assurance that we will be able to successfully effect a business combination. As of June 30, 2008, we have had released to us \$1,760,446 of the \$3,250,000.

## **Liquidity and Capital Resources**

As of June 30, 2008, we have cash in our operating account of \$1,653,940 and an additional \$1,277,636 in our Trust Account which is available for us to use for working capital and taxes. Our initial public offering and sale of Sponsors' Warrants generated net proceeds of \$258,867,469. \$258,346,625 of the net proceeds are held in trust and may only be used in connection with an acquisition, or full or partial conversion of the shares issued pursuant to the offering. Since our initial public Offering, our only source of revenue has been from interest and dividends earned on our cash accounts. The proceeds from our initial public Offering that were placed in a Trust Account were invested in United States government securities within the meaning of Section 2(a)(16) of the Investment Company Act of 1940 having a maturity of 180 days or less or in money market funds meeting certain conditions under Rule 2a-7 promulgated under the Investment Company Act of 1940. As of June 30, 2008 the funds placed in trust are earning interest at the rate of approximately 1.48%. We incurred offering costs of \$10,622,531 with regard to the Offering which were charged to additional paid in capital on the balance sheet at the time of the closing of the Offering. The remaining net proceeds of \$520,844 not placed in trust were available to be used to provide for due diligence on prospective Business Combinations and continuing general and administrative expenses.

We intend to use substantially all of the net proceeds of the offering to acquire a target business, including

## **Table of Contents**

identifying and evaluating prospective acquisition candidates, selecting the target business, and structuring, negotiating and consummating the Business Combination. To the extent that our capital stock is used in whole or in part as consideration to effect a Business Combination, the resulting proceeds held in the trust fund as well as any other net proceeds not expended will be used to finance the operations of the target business. We believe we will have sufficient available funds outside of the trust fund to operate through November 8, 2009, assuming that a business combination is not consummated during that time. We do not believe we will need to raise additional funds following this offering in order to meet the expenditures required for operating our business. However, we may need to raise additional funds through a private offering of debt or equity securities if such funds are required to consummate a business combination that is presented to us. We would only consummate such a financing simultaneously with the consummation of a business combination.

### **Off-Balance Sheet Financing Arrangements**

We have no obligations, assets or liabilities which would be considered off-balance sheet arrangements. We do not participate in transactions that create relationships with unconsolidated entities or financial partnerships, often referred to as variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements.

We have not entered into any off-balance sheet financing arrangements, established any special purpose entities, guaranteed any debt or commitments of other entities, or acquired any non-financial assets.

### **Contractual Obligations**

We do not have any long-term debt, capital lease obligations, operating lease obligations or long-term liabilities.

### **Critical Accounting Policies**

Our significant accounting policies are more fully described in Note 2 to the condensed interim financial statements. However certain accounting policies are particularly important to the portrayal of financial position and results of operations and require the application of significant judgments by management. As a result, the condensed interim financial statements are subject to an inherent degree of uncertainty. In applying those policies, management used its judgment to determine the appropriate assumptions to be used in determination of certain estimates. Our accounting policy will be to use estimates based on our historical experience, terms of existing contracts, observance of trends in the industry and information available from outside sources, as appropriate.

### **ITEM 3. Quantitative and Qualitative Disclosures about Market Risk.**

As of June 30, 2008, our efforts were limited to organizational activities, activities relating to our initial public offering and the search for an acquisition candidate; we had neither engaged in any operations nor generated any revenues.

Market risk is a broad term for the risk of economic loss due to adverse changes in the fair value of a financial instrument. These changes may be the result of various factors, including interest rates, foreign exchange rates, commodity prices and/or equity prices. Net proceeds from our initial public offering ( IPO ) of \$246.3 million (which includes \$8.125 million of the proceeds attributable to the Underwriters' deferred discount from the IPO) have been placed in a trust account at Merrill Lynch, with Continental Stock Transfer & Trust Company acting as trustee. Pursuant to the Underwriters' over-allotment option, proceeds of an additional \$12,021,625 (including \$405,925 of deferred underwriter's discount) have also been placed in the trust account held with Merrill Lynch. As of June 30, 2008, the balance of the trust account was \$259,624,261. We are allowed to use \$3,250,000 (net of applicable income taxes, if any) of the interest earned on the money in the Trust Account for working capital purposes. The proceeds held in trust have only been invested in U.S. government securities having a maturity of 180 days or less or in money market funds which invest principally in either short-term securities issued or guaranteed by the United States having the highest rating from a recognized credit rating agency or tax exempt municipal bonds.



## **Table of Contents**

issued by governmental entities located within the United States or otherwise meeting the conditions under Rule 2a-7 under the Investment Company Act. Thus, we are currently subject to market risk primarily through the effect of changes in interest rates on short-term government securities and other highly rated money-market instruments. As of June 30, 2008, the effective annualized interest rate payable on our investment was approximately 1.48%. Assuming no other changes to our holdings as of June 30, 2008, a 1% decrease in the underlying interest rate payable on our investment as of June 30, 2008 would result in a decrease of approximately \$0.65 million in the interest earned on our investment for the following 90-day period, and a corresponding decrease in our net increase in stockholders' equity resulting from operations, if any, for that period. We do not believe that the effect of other changes, such as foreign exchange rates, commodity prices and/or equity prices currently pose significant market risk for us.

We have not engaged in any hedging activities since our inception. We do not currently expect to engage in any hedging activities.

### **ITEM 4. Controls and Procedures.**

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our chief executive officer, as appropriate to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our chief executive officer (our principal executive and principal financial and accounting officer) carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2008. Based upon his evaluation, he concluded that our disclosure controls and procedures (as defined in Rules 13a-15 (e) and 15d-15 (e) under The Exchange Act) were effective.

Our internal control over financial reporting is a process designed by, or under the supervision of, our chief executive officer and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles (United States). Internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with generally accepted accounting principles (United States), and that our receipts and expenditures are being made only in accordance with the authorization of our board of directors and management; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

During the most recently completed fiscal quarter, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

**PART II OTHER INFORMATION**

**ITEM 1A. RISK FACTORS.**

Factors that could cause our actual results to differ materially from those in this report are any of the risks described in Item 1A: Risk Factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as filed with the SEC. Any of these factors could result in a significant or material adverse effect on our results of operations or financial condition. Additional risk factors not presently known to us or that we currently deem immaterial may also impair our business or results of operations.

There have been no material changes to the Risk Factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the SEC.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

*Use of Proceeds from the Initial Public Offering*

On November 14, 2007, we closed our initial public offering of 25,000,000 Units, with each unit consisting of one share of our common stock and one warrant, each to purchase one share of our common stock at an exercise of \$7.50 per share. The Units from the public offering were sold at an offering price of \$10.00 per unit, generating total gross proceeds of \$250,000,000. Citigroup Global Markets Inc., acted as sole book-running manager and representative of the underwriters (together, the Underwriters). The securities sold in the Offering were registered under the Securities Act of 1933 on a registration statement on Form S-1 (No. 333-144834). The Securities and Exchange Commission declared the registration statement effective on November 8, 2007.

On December 7, 2007, the Underwriters exercised their over-allotment option and on December 12, 2007 we issued 1,249,000 Units at \$10 per share, grossing proceeds of \$12,490,000.

We paid a total of \$9,843,375 in underwriting discounts and \$779,156, for other costs and expenses related to the Offering and the over-allotment option.

We also consummated the simultaneous private sale of 7,000,000 Warrants at a price of \$1.00 per warrant (for an aggregate purchase price of \$7,000,000). The Warrants were purchased by Mark D. Ein, our Chief Executive Officer, Amanda Eilian, our Vice President, Raul J. Fernandez, Piyush Sodha, Richard C. Donaldson, Lawrence Calcano, each members of our board of directors and Brooke B. Coburn, Arno Penzias, Hugh Panero, Thomas E. Wheeler, Ted Leonsis, Jeong H. Kim and ZG Ventures LLC, each a special advisor to our company. These issuances were made pursuant to the exemption from registration contained in Section 4(2) of the Securities Act.

After deducting the underwriting discounts and offering expenses, proceeds from the Offering of \$258,346,625 (or approximately \$9.84 per unit sold in the initial public offering) were placed in trust.

**Table of Contents**

**ITEM 6. Exhibits.**

(a) Exhibits:

31	Section 302 Certification by Principal Executive Officer and Principal Financial and Accounting Officer
32	Section 906 Certification by Principal Executive Officer and Principal Financial and Accounting Officer

**Table of Contents**

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

CAPITOL ACQUISITION CORP.

Dated: August 13, 2008

By: /s/ Mark D. Ein  
Mark D. Ein  
Chief Executive Officer (Principal Executive Officer and Principal  
Financial and Accounting Officer)

**Table of Contents**

EXHIBIT INDEX

**EXHIBIT NO.**

- |    |   |
|----|---|
| 31 | Certification of Principal Executive Officer and Principal Financial Officer, pursuant to Rule 13a-14 and 15d-14 of the Securities Exchange Act of 1934.                                |
| 32 | Certification of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |