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Renaissance Acquisition Corp.
Form 10-Q
November 13, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended September 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 001-33258

RENAISSANCE ACQUISITION CORP.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

20-4720414
(I.R.S. Employer
Identification No.)

50 E. Sample Road, Suite 400

Pompano Beach, FL 33064

(Address of Principal Executive Offices)

(954) 784-3031

(Registrant's Telephone Number, Including Area Code)

Indicate by check whether the registrant: (1) 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

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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

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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 21,840,000 shares issued and outstanding as of October 31, 2008.

RENAISSANCE ACQUISITION CORP.

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PART I.
FINANCIAL INFORMATION

Item 1. Financial Statements

RENAISSANCE ACQUISITION CORP.
(A Development Stage Company)
CONDENSED BALANCE SHEETS

	December 31, 2007	September 30, 2008 (unaudited)
<u>ASSETS</u>		
Current assets:		
Cash	\$ 1,410,028	\$ 870,793
Prepaid expenses	19,213	89,857
Investment income receivable	8,374	—
Total current assets	1,437,615	960,650
Cash equivalents held in trust account	105,364,922	106,407,992
Fixed assets, net of accumulated depreciation	1,097	3,397
	\$ 106,803,634	\$ 107,372,039
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 42,078	\$ 855,375
Accrued expenses	80,250	69,000
Total current liabilities	122,328	924,375
Long-term obligations:		
Accrued underwriting costs	3,051,240	3,051,240
Total liabilities	3,173,568	3,975,615
Common stock subject to possible conversion, 3,586,206 shares at conversion value	20,819,153	20,819,153
Interest income attributable to common stock subject to conversion, net of tax	245,203	453,705
Commitments and contingencies (Note 3 and 7):		
Stockholders' equity:		
Preferred stock - \$.0001 par value, 1,000,000 shares authorized and none outstanding at December 31, 2007 and September 30, 2008		
Common stock - \$.0001 par value, 72,000,000 shares authorized, 21,840,000 issued and outstanding (including 3,586,206 shares subject to possible conversion) as of December 31, 2007 and September 30, 2008	2,184	2,184
Additional paid-in capital	80,508,869	80,508,869
Earnings accumulated during the development stage	2,054,657	1,612,513
Total stockholders' equity	82,565,710	82,123,566
	\$ 106,803,634	\$ 107,372,039

See notes to the financial statements.

RENAISSANCE ACQUISITION CORP.**(A Development Stage Company)****CONDENSED STATEMENTS OF OPERATIONS****(UNAUDITED)**

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2008	April 17, 2006 (inception) to September 30, 2008
General and administrative expenses	\$ 466,888	\$ 994,357	\$ 761,264	\$ 1,323,749	\$ 2,173,305
Operating loss	(466,888)	(994,357)	(761,264)	(1,323,749)	(2,173,305)
Other income (expense)					
Interest expense	(1,352)	(281)	(4,175)	(1,664)	(6,927)
Interest income	20,263	6,073	33,234	29,690	83,279
Interest income trust account	1,268,684	407,398	2,788,458	1,676,380	5,790,312
Income (loss) before provision for income taxes	820,707	(581,167)	2,056,253	380,657	3,693,359
Provision for income taxes	(542,803)	(146,783)	(623,456)	(614,299)	(1,627,141)
Net income (loss)	\$ 277,904	\$ (727,950)	\$ 1,432,797	\$ (233,642)	\$ 2,066,218
Less: Interest attributable to common stock subject to possible conversion, net of tax	(57,972)	(48,993)	(57,972)	(208,502)	(453,705)
Net income (loss) attributable to common stock not subject to possible conversion	\$ 219,932	\$ (776,943)	\$ 1,374,825	\$ (442,144)	\$ 1,612,513
Maximum number of shares subject to possible conversion:					
Weighted average shares outstanding subject to possible conversion	3,586,206	3,586,206	3,153,280	3,586,206	
Income per share amount:					
Basic and diluted	\$.02	\$.01	\$.02	\$.06	
Weighted average shares outstanding not subject to possible conversion:					
Basic and diluted	18,253,794	18,253,794	16,521,006	18,253,794	
Pro forma diluted	21,999,710	23,037,729	19,468,103	22,601,153	
Net income (loss) per share attributable to common stock not subject to conversion:					

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Basic and diluted	.01	(\$.04)	.08	(\$.02)
Pro forma diluted	.01	(\$.03)	.07	(\$.02)

See notes to the financial statements.

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RENAISSANCE ACQUISITION CORP.**(A Development Stage Company)****CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY**

	<u>Common Stock</u>		Additional Paid-In Capital	(Deficit)/ Earnings Accumulated During the DevelopmentStage	Total Stockholders' Equity
	Shares	Amount			
Balance at April 17, 2006 (inception)	—	—	—	—	—
Sale of common stock to founding stockholders at \$.0064 per share (April 17, 2006)	3,900,000	390	24,610	—	25,000
Net loss for the period	—	—	—	(1,518)	(1,518)
Balance as of December 31, 2006	3,900,000	390	24,610	(1,518)	23,482
Sale of private placement warrants at \$0.45 per warrant	—	—	2,100,000	—	2,100,000
Sale of 17,940,000 units net of offering expenses at \$6.00 per unit (February 1, 2007)	17,940,000	1,794	99,203,312	—	99,205,106
Proceeds subject to possible conversion of 3,586,206 shares	—	—	(20,819,153)	—	(20,819,153)
Sale of unit purchase option	—	—	100	—	100
Accretion of trust account relating to common stock subject to possible conversion, net of tax				(245,203)	(245,203)
Net income for the year	—	—	—	2,301,378	2,301,378
Balance as of December 31, 2007	21,840,000	2,184	80,508,869	2,054,657	82,565,710
Accretion of trust account relating to common stock subject to possible conversion, net of tax				(208,502)	(208,502)
Net loss for the nine months ending September 30, 2008				(233,642)	(233,642)
Balance as of September 2008 (unaudited)	21,840,000	\$ 2,184	\$ 80,508,869	\$ 1,612,513	\$ 82,123,566

See notes to the financial statements.

RENAISSANCE ACQUISITION CORP.**(A Development Stage Company)****CONDENSED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2008	April 17, 2006 (inception) to September 30, 2008
Cash flows from operating activities:			
Net income (loss)	\$ 1,432,797	\$ (233,642)	\$ 2,066,218
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	142	376	596
Changes in operating assets and liabilities:			
Prepaid expenses	(9,843)	(70,644)	(704,156)
Interest income receivable	(9,360)	8,374	—
Accounts payable and accrued liabilities	985,029	802,047	1,538,674
Net cash provided by operating activities	2,398,765	506,511	2,901,332
Cash flows from investing activities:			
Proceeds invested in trust account	(105,061,449)	(1,043,070)	(106,407,992)
Acquisition of fixed assets	(1,316)	(2,676)	(3,993)
Net cash used by investing activities	(105,062,765)	(1,045,746)	(106,411,985)
Cash flows from financing activities:			
Proceeds from/(repayment of) note payable to stockholder	(150,000)	—	—
Proceeds from sale of units, net	102,371,680		102,256,446
Proceeds from issuance or warrants	2,100,000		2,100,000
Proceeds from sale of common stock to initial stockholder	—	—	25,000
Net cash provided by financing activities	104,321,680	-0-	104,381,446
Net increase (decrease) in cash	1,657,680	(539,235)	870,793
Cash at beginning of period	60,165	1,410,028	-0-
Cash at end of period	\$ 1,717,845	\$ 870,793	\$ 870,793
Supplemental cash flow disclosures:			
Cash paid for:			
Interest	\$ (4,175)	\$ (1,664)	\$ (6,927)
Income taxes	\$ -0-	\$ 632,810	\$ 1,655,310
Non-cash operating and financing activity:			
Accrual of deferred offering costs	\$ -0-	\$ -0-	\$ (212,493)
Accrued deferred underwriting fees	3,051,240	-0-	3,051,240
Accrued insurance installment loan	\$ 60,833	\$ -0-	\$ 4,864

See notes to the financial statements.

RENAISSANCE ACQUISITION CORP.

NOTES TO CONDENSED FINANCIAL STATEMENTS

AS OF THE PERIOD ENDED SEPTEMBER 30, 2008

Note 1. Organization and Business Operations

Renaissance Acquisition Corp. (the "Company") was incorporated in Delaware on April 17, 2006 for the purpose of effecting a merger, capital stock exchange, asset acquisition or other similar business combination with one or more operating businesses. The Company's fiscal year-end is December 31.

As of September 30, 2008, the Company had not yet commenced any operations. All activity through September 30, 2008 relates to the Company's formation, its initial public offering of its securities (the "IPO") which was completed in February 2007, activities to identify an operating business to acquire and negotiating and entering into an agreement to acquire an operating business. See Notes 3 and 9.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements have been prepared by the Company without audit on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("GAAP"). Pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"), certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted or condensed. It is management's belief that the disclosures made are adequate to make the information presented not misleading and reflect all significant adjustments (consisting primarily of normal recurring adjustments) necessary for a fair presentation of financial position and results of operations for the periods presented. The results of operations for the nine months ended September 30, 2008 are not necessarily indicative of the operating results for the full year. It is recommended that these financial statements be read in conjunction with the financial statements and notes thereto as of December 31, 2007 and for the year ended December 31, 2007 filed with the SEC and included in the Company's Form 10-K filed with the SEC on March 31, 2008.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Fair Value Measurements

The fair values of the Company's financial instruments reflect the estimates of amounts that would be received from selling an asset in an orderly transaction between market participants at the measurement date. The fair value estimates presented in this report are based on information available to the Company as of September 30, 2008 and December 31, 2007.

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS 157"), the Company applies a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. The three levels are the following:

- Level I — Quoted prices in active markets for identical assets or liabilities.

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- Level 2— Inputs other than Level I that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value of cash and investments held in the trust account were estimated using Level I inputs and the carrying value approximates the fair value because of their nature and respective duration.

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Cash Equivalents

The Company considers highly liquid investments with maturities of three months or less, when purchased, to be cash equivalents. Cash equivalents held in the Trust Account (see Note 3) are to be held to maturity, and accordingly, are stated at cost. Funds held in the Trust Account are restricted (see Note 3).

Accrued Underwriting Fees

Accrued underwriting fees of \$3,051,240 accrued in connection with the Company's IPO are payable if and when the Company effects a business combination (see Note 3).

Deferred Taxes

The Company has recorded a deferred tax asset of \$759,846 which arises from the differing book and tax treatments of expenses during the development stage. Because management has determined that it is not more likely than not that the Company will be able to utilize the benefit of the deferred tax asset, it has recorded a valuation allowance for the full amount.

Common Stock Subject to Possible Conversion

Common stock subject to possible conversion represents 19.99% of the proceeds from the IPO placed in trust, interest income earned on the trust, net of tax, in excess of the \$1,875,000 that has been released to the Company for operating expenses and due diligence and the estimated tax liability associated with interest income earned on the funds held in trust (see Note 3). Such amount is payable on a pro-rata basis upon consummating a business combination to Public Stockholders (see Note 3) who vote against a business combination and elect conversion.

Derivative Financial Instruments

Potential derivative financial instruments consist of warrants issued as part of the IPO and a unit purchase option that was sold to the representative of the underwriters as described in Note 3. Based on Emerging Issues Task Force Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock, the issuance of the warrants and the sale of the unit purchase option were not required to be recorded as derivative liabilities and are reported in stockholders' equity. Accordingly, there is no impact on the Company's financial position and results of operations, except for the \$100 in proceeds from the sale of the unit purchase option. Subsequent changes in the fair value will not be recognized as long as the warrants and unit purchase option continue to be classified as equity instruments.

At the date of issuance, the Company determined the unit purchase option had a fair market value of approximately \$2,333,500 using a Black-Scholes pricing model.

Net Income (Loss) Per Share

The weighted average number of shares used in the basic and diluted net income (loss) per share for shares outstanding not subject to possible conversion are as follows:

Net income (loss) per share for all periods is computed by dividing the earnings applicable to common stockholders by the weighted average number of common shares outstanding for the period. Warrants issued by the Company in the IPO and sponsor warrants are contingently exercisable upon consummation of a business combination. Hence these are presented in the pro forma diluted net income (loss) per share. Pro forma diluted net income (loss) per share reflects the potential dilution assuming common shares were issued upon the exercise of outstanding in the money warrants and the proceeds thereof were used to purchase common shares at the then average market price during the period.

The Company's statements of operations include a presentation of net income (loss) per share for common stock subject to possible conversion in a manner similar to the two-class method of earnings per share. Basic and diluted net income (loss) per share amount for the maximum number of shares subject to possible conversion is calculated by dividing the net interest income attributable to common shares subject to conversion (\$57,972 and \$48,993 for the three months ended September 30, 2007 and 2008, respectively, and \$57,972 and \$208,502 for the nine months ended September 30, 2007 and 2008, respectively) by the weighted average number of shares subject to possible conversion. Basic and diluted net income (loss) per share amount for the shares outstanding not subject to possible conversion is calculated by dividing the net income (loss)

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exclusive of the net interest income attributable to common shares subject to conversion by the weighted average number of shares not subject to possible conversion.

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	For the Three Months Ended September 30, 2007	For the Three Months Ended September 30, 2008	For the Nine Months Ended September 30, 2007	For the Nine Months Ended September 30, 2008
Weighted average number of shares outstanding as used in computation of basic and diluted net income (loss) per share	18,253,794	18,253,794	16,521,006	18,253,794
Effect of diluted securities -- warrants	3,745,916	4,783,935	2,947,097	4,347,359
Shares used in computation of pro forma diluted net income (loss) per shares	21,999,710	23,037,729	19,468,103	22,601,153

At September 30, 2007 and 2008, the Company had outstanding warrants to purchase 35,880,000 shares of common stock, which were included in the calculation of pro forma diluted shares. For the nine months ended September 30, 2007 and September 30, 2008, potential common shares in connection with the underwriters' purchase option (see Note 3) aggregating 1,950,000 and the insider warrants aggregating 4,666,667 have not been included because the effect would be anti-dilutive.

Adoption of New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. ("FIN") *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109 and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We adopted FIN 48 effective January 1, 2007, which had no material effect on our financial statements. The only year for which we have filed income tax returns is 2006, and such tax returns are open to examination by the major taxing jurisdiction to which we are subject. The Company has elected to record interest and penalties recognized in accordance with FIN 48 in the financial statements as income taxes. Any subsequent change in classification of such interest and penalties will be treated as a change in accounting principle subject to the requirements of SFAS No. 154, *Accounting Changes and Error Corrections*.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. SFAS 157 is effective in fiscal years beginning after November 15, 2007. We adopted SFAS 157 effective January 1, 2008, which had no material effect on our financial statements.

In October 2008, the FASB issued FASB Staff Position ("FSP") *FAS 157-3; Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active.* This FSP clarifies the application of SFAS 157 in a market that is not active and applies to financial assets within the scope of accounting pronouncements that require or permit fair value measurements in accordance with SFAS 157. The FSP is effective upon issuance, including prior periods for which financial statements have not been issued. Accordingly, the Company adopted this guidance effective July 1, 2008. The Company's adoption of this guidance did not have a material effect on the Company's financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"), which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We adopted SFAS 159 effective January 1, 2008, which had no material effect on our financial statements.

Impact of Recently Issued Accounting Pronouncements

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In December 2007, the FASB, issued SFAS No. 141 (revised 2007), "*Business Combinations*" ("FAS 141R"). FAS 141R replaces SFAS No. 141, "*Business Combinations*" ("FAS 141"), although it retains the fundamental requirement in FAS 141 that the acquisition method of accounting be used for all business combinations. FAS 141R establishes principles and requirements for how the acquirer in a business combination (a) recognizes and measures the assets acquired, liabilities assumed and any non-controlling interest in the acquiree, (b) recognizes and measures the goodwill acquired in a business combination or a gain from a bargain purchase and (c) determines which information to disclose regarding the business combination. FAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of our 2009 fiscal year. We are currently assessing the potential effect of FAS 141R on our financial statements.

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In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51* ("FAS 160"). This standard establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance will become effective as of the beginning of the Company's fiscal year beginning after December 15, 2008. The Company is currently assessing the impact of the adoption of FAS 160 on the Company's financial position and results of operations.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, ("SFAS 162"). SFAS 162 sets forth the sources of accounting principles and the framework, or hierarchy, for selecting principles to be used in financial statement preparation. Prior to the issuance of SFAS 162, the GAAP hierarchy was defined in the American Institute of Certified Public Accountants Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles* ("SFAS 162"). SFAS 162 will be effective following approval by the Securities and Exchange Commission ("SEC"). The FASB does not expect the issuance of SFAS 162 to result in a change in current practice. The Company is currently evaluating the impact, if any, that SFAS 162 will have on its financial position 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 February 1, 2007, the Company issued and sold 15,600,000 units ("Units") in its IPO, and on February 16, 2007, the Company issued and sold an additional 2,340,000 Units that were subject to the underwriters' over-allotment option. Each Unit consists of one share of common stock 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 commencing the later of (a) one year from the effective date of the IPO or (b) the completion of an acquisition. The Warrants will expire four years from the effective date of the IPO. The Warrants will be redeemable at a price of \$.01 per Warrant upon 30 days' notice after the Warrants become exercisable, only in the event that the last sale price of the common stock is at least \$8.50 per share for any 20 trading days within a 30 trading day period ending on the third day prior to the date on which notice of redemption is given.

The public offering price of each Unit was \$6.00, and the gross proceeds of the IPO were \$107,640,000 (including proceeds from the exercise of the over-allotment option). Of the gross proceeds: (i) \$102,047,840 was deposited into a trust account (the "Trust Account"), which amount included \$3,051,240 of deferred underwriting fees; (ii) the underwriters received \$4,811,160 in underwriting fees (excluding the deferred underwriting fees); and (iii) the Company retained \$781,000 for offering expenses. In addition, the Company deposited into the Trust Account \$2,100,000 that it received from the issuance and sale of 4,666,667 Warrants (exercisable at \$6.00 per share) to RAC Partners LLC, an entity controlled by Barry Florescue, our Chairman and Chief Executive Officer, and Charles Miersch and Morton Farber, two of our Directors, on February 1, 2007.

In connection with the IPO, the Company sold to the representative of the underwriters for \$100 an option to purchase 650,000 Units for \$7.50 per Unit. These units are identical to the Units issued in the IPO. This option may be exercised for cash or on a "cashless basis" and expires February 1, 2012.

The funds in the Trust Account will be distributed to the Company (subject to stockholder claims described below) upon consummation of a business combination with one or more operating businesses (the "Business Combination") whose collective market value is at least 80% of the Company's net assets at the time of the acquisition. The Company may use the funds in the Trust Account to complete the Business Combination or for such purposes as the Company determines following the Business Combination. If the Company does not consummate a Business Combination by January 29, 2009, the funds in the Trust Account will be distributed to the stockholders then holding the shares issued in the IPO (the "Public Stockholders"). Pending distribution to the Company or the Public Stockholders, the funds in the Trust Account may be invested in government securities and certain money market funds. Interest earned on the Trust Account, up to \$1,875,000, net of taxes, has been released to the Company for due diligence and general and administrative expenses. Through September 30, 2008, approximately \$5,790,000 of interest had been earned on the trust account, of which \$1,875,000 has been released to the Company to fund its working capital requirements.

The Company accreted \$208,502 of interest to the common stock subject to possible conversion for the nine months ended September 30, 2008, and \$453,705 for the period from April 17, 2006 (inception) through September 30, 2008. The interest is derived from the sum of the trust income less the provision for income taxes and working capital allocation, then applying the percent of common shares subject to possible conversion.

The Company has agreed to submit the Business Combination for approval of its stockholders even if the nature of the transaction would not require stockholder approval under applicable state law. The Company will not consummate the Business Combination unless it is approved by a majority of the Public Stockholders, and the Public Stockholders owning less than 20% of the shares issued in the IPO vote against the Business Combination and exercise the conversion rights described below. The Company's stockholders prior to the consummation

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of the IPO (the "Pre-IPO Stockholders") agreed to vote their shares of common stock owned prior to the IPO in accordance with the vote of the majority in interest of the Public Stockholders. These voting provisions will not be applicable after the consummation of the first Business Combination.

With respect to a Business Combination that 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. The per share conversion price will equal the amount in the Trust Account inclusive of any interest subject to the amounts allocable for due diligence, general and administrative expenses and income taxes described above (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 the IPO. Accordingly, a Business Combination may be consummated with Public Stockholders holding 19.99% of the aggregate number of shares owned by all Public Stockholders converting such shares into cash from the Trust Account. Such Public Stockholders are entitled to receive their per-share interest in the Trust Account computed without regard to the shares held by the Pre-IPO Stockholders.

The Company's Certificate of Incorporation provides for mandatory liquidation of the Company in the event that the Company does not consummate a Business Combination prior to January 29, 2009.

Note 4. Concentrations of Credit Risk

The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on its cash balances. The Company did have cash on deposit exceeding the insured limit as of September 30, 2008. The balance is held in a money market fund account.

Note 5. Installment Loan

The Company has an installment loan from First Insurance Funding Corp. of N.Y. for the sole purpose of financing its insurance policy for directors' and officers' liability. The loan requires 21 installment payments of \$4,898 beginning on February 28, 2007. As of September 30, 2008, \$4,864 was outstanding, excluding accrued interest.

The installment loan bears interest at 7.75% per annum and is payable from the funds transferred from earnings of the Trust Account, which funds will be distributed to the Public Stockholders if the Company does not consummate the initial Business Combination within the required time periods.

Note 6. Note Payable to Founding Stockholder

On April 30, 2006, the Company issued a \$150,000 unsecured promissory note to Barry W. Florescue, the Company's Chairman and Chief Executive Officer (the "Note"). The Note was non-interest bearing and was payable on the earlier of April 30, 2007 or the consummation of the IPO. The Note was repaid with the proceeds of the IPO on February 1, 2007.

Note 7. Related Party Transactions

The Company pays BMD Management Company, Inc. a fee of \$8,000 per month for office space and general and administrative services pursuant to an agreement between the Company and BMD Management Company, Inc. with a term beginning on January 29, 2007 and ending on the effective date of the acquisition of a target business. Through September 30, 2008, \$160,774 had been incurred with respect to this agreement. As of September 30, 2008, there were no outstanding management fees payable to BMD Management Company, Inc.

The Company engages and proposes to continue to engage in ordinary course banking relationships on customary terms with Century Bank including the investment of excess operating funds in short term certificates of deposit. The Company's Chairman and Chief Executive Officer is the Chairman and owner of the bank and two of the Company's Directors are directors of the bank.

The Company's Chairman and Chief Executive Officer, pursuant to an agreement with the Company and the underwriter, has agreed that if the Company liquidates prior to the consummation of a business combination, he will be personally liable to pay debts and obligations to target businesses or vendors or other entities that are owed money by the Company for services rendered or contracted for or products sold to the Company in excess of the net proceeds of the IPO not held in the Trust Account.

The Company's Chairman and Chief Executive Officer has also entered into an agreement with Ladenburg Thalmann & Co. Inc., the lead underwriter for the IPO, pursuant to which he, or an entity or entities he controls, will place limit orders for \$12 million of the Company's common stock commencing ten business days after the Company files its Current Report on Form 8-K announcing its execution of a definitive agreement for a business combination and ending on the business day immediately preceding the record date for the meeting of stockholders at which such business combination is to be approved. If he purchases shares of common stock pursuant to this agreement, he will be entitled to

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vote such shares as he chooses on a proposal to approve a business combination which may influence whether or not a business combination is approved.

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Note 8. 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.

Note 9. Entry Into Definitive Merger Agreement

On September 13, 2008, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") to effect a reverse acquisition of First Communications, Inc. ("First Communications"). If the Merger is consummated, First Communications shareholders will receive an aggregate of 18,460,000 shares of our common stock and the right to receive up to an aggregate of an additional (i) 9,950,000 shares of our common stock if certain conditions relating to EBITDA are satisfied (as further described in the following paragraph) and (ii) 8,500,000 shares of our common stock if the last sales price of our common stock has been at least \$8.50 per share on 20 trading days within any 30 trading day period ending on January 28, 2011 ("Warrant Condition"). In addition, holders of First Communications' preferred stock would receive an aggregate of \$15.0 million in cash consideration, together with an accrued dividend of 12% per annum, pro rated and calculated from September 28, 2008, in exchange for their shares. If the Company does not consummate this transaction by January 29, 2009, it will be required by its governing documents to liquidate.

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

This Quarterly Report on Form 10-Q includes 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. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "con" the negative of such terms or other similar expressions. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those described in our other Securities and Exchange Commission filings.

Overview

The Company was formed on April 17, 2006 for the purpose of effecting a merger, capital stock exchange, asset acquisition or other similar business combination with one or more operating businesses.

On February 1, 2007, we completed our initial public offering or IPO of 15,600,000 units, and on February 16, 2007, we completed the sale of an additional 2,340,000 units that were subject to the underwriter's over-allotment option. Each Unit consists of one share of our common stock and two warrants entitling the holder to purchase one share of our common stock at a price of \$5.00. The public offering price of each unit was \$6.00, and we generated gross proceeds of \$107,640,000 in the IPO (including proceeds from the exercise of the over-allotment option). Of the gross proceeds: (i) we deposited \$102,047,840 into a trust account, or the Trust Account, at JPMorgan Chase NY Bank, maintained by Continental Stock Transfer & Trust Company as trustee, which included \$3,051,240 of deferred underwriting fees; (ii) the underwriters received \$4,811,160 in underwriting fees (excluding the deferred underwriting fees); and (iii) we retained \$781,000 for offering expenses. In addition, we deposited into the Trust Account \$2,100,000 that we received from the issuance and sale of 4,666,667 warrants to RAC Partners LLC, an entity controlled by Barry W. Florescue, our chairman and chief executive officer, and Charles Miersch and Morton Farber, directors on January 29, 2007.

We intend to utilize cash derived from the proceeds of our initial public offering, our capital stock, debt or a combination of cash, capital stock and debt, in effecting a business combination. The issuance of additional shares of our capital stock:

- may significantly reduce the equity interest of our stockholders;
- may subordinate the rights of holders of common stock if we issue preferred stock with rights senior to those afforded to our common stock;
- will likely cause a change in control if a substantial n