

Edgar Filing: Rhapsody Acquisition Corp. - Form 10QSB

Rhapsody Acquisition Corp.  
Form 10QSB  
February 14, 2008

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended December 31, 2007

Transition report under Section 13 or 15(d) of the Exchange Act

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-52203

Rhapsody Acquisition Corp.  
(Exact Name of Small Business Issuer as Specified in Its Charter)

Delaware  
(State or other Jurisdiction of  
Incorporation or Organization)

20-4743916  
(I.R.S. Employer  
Identification No.)

825 Third Avenue, 40th Floor, New York, New York 10022  
(Address of Principal Executive Office)

(212) 319-7676  
(Issuer's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act:

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Number of shares of common stock outstanding as of February 13, 2008: 6,300,000.

	Page
<b>Part I: Financial Information:</b>	
<b>Item 1 -Financial Statements (unaudited):</b>	
Balance Sheet	3
Statements of Operations	4
Statement of Stockholders' Equity	5
Statement of Cash Flows	6
Summary of Significant Accounting Policies	7
Notes to Financial Statements	9
<b>Item 2 - Management's Discussion and Analysis or Plan of Operation</b>	<b>14</b>
<b>Item 3 - Controls and Procedures</b>	<b>16</b>
<b>Part II. Other Information</b>	
<b>Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds</b>	<b>17</b>
<b>Item 6 - Exhibits</b>	<b>17</b>
<b>Signatures</b>	<b>18</b>

**RHAPSODY ACQUISITION CORP**  
(A CORPORATION IN THE DEVELOPMENT STAGE)  
BALANCE SHEET

	<b>December 31, 2007</b>	<b>March 31, 2007</b>
	(Unaudited)	(Audited)
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 202,007	\$ 515,240
Cash held in trust, including interest (Note 2)	40,782,672	39,922,072
Prepaid expenses and other	16,224	63,940
<b>Total assets</b>	<b>\$ 41,000,903</b>	<b>\$ 40,501,252</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accrued expenses and taxes	\$ 26,057	\$ 41,491
Deferred underwriting fee (Note 2)	414,000	414,000
<b>Total current liabilities</b>	<b>\$ 440,057</b>	<b>\$ 455,491</b>
<b>Common Stock, subject to possible conversion (1,034,483 shares at conversion value) (Note 2)</b>	<b>\$ 8,152,460</b>	<b>\$ 7,980,426</b>
<b>Commitments (Note 4)</b>		
<b>Stockholders' equity (Notes 3, 5 and 6)</b>		
Preferred stock, \$.0001 par value, 1,000,000 shares authorized, 0 shares issued	-	-
Common stock, \$.0001 par value, 15,000,000 shares authorized, 5,265,517 share issued and outstanding (excluding 1,034,483 shares subject to possible conversion)	527	527
Additional paid-in capital	31,541,672	31,713,706
Retained earnings accumulated during the development stage	866,187	351,102
<b>Total stockholders' equity</b>	<b>32,408,386</b>	<b>32,065,335</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 41,000,903</b>	<b>\$ 40,501,252</b>

*See accompanying summary of significant accounting policies and notes to unaudited financial statements*

**RHAPSODY ACQUISITION CORP**  
(A CORPORATION IN THE DEVELOPMENT STAGE)  
STATEMENTS OF OPERATIONS

	<i>Three Months Ended December 31, 2007 (Unaudited)</i>	<i>Three Months Ended December 31, 2006 (Unaudited)</i>	<i>Nine Months Ended December 31, 2007 (Unaudited)</i>	<i>Period from April 24, 2006 (inception) to December 31, 2006 (Unaudited)</i>	<i>Period from April 24, 2006 (inception) to December 31, 2007 (Unaudited)</i>
Operating expenses:					
General and administrative costs (Notes 4 and 7)	\$ 167,944	\$ 73,519	\$ 433,882	\$ 75,313	\$ 663,882
Operating loss	(167,944)	(73,519)	(433,882)	(75,313)	(663,882)
Other Income:					
Interest income	\$ 752	\$ 4,919	\$ 5,751	\$ 5,163	\$ 15,985
Interest on Trust Fund	340,031	305,548	1,060,600	305,548	1,704,422
Net income before provision for income taxes	172,839	236,948	632,469	235,398	1,056,525
Provision for income taxes (Note 7)	(39,174)	(35,731)	(117,384)	(35,731)	(190,338)
<b>Net Income</b>	<b>\$ 133,665</b>	<b>\$ 201,217</b>	<b>\$ 515,085</b>	<b>\$ 199,667</b>	<b>\$ 866,187</b>
Accretion of Trust Account relating to common stock subject to possible conversion	(27,992)	(61,075)	(172,034)	(61,075)	(300,734)
<b>Net income (loss) attributable to common stockholders</b>	<b>\$ 105,673</b>	<b>\$ 140,142</b>	<b>\$ 343,051</b>	<b>\$ 138,592</b>	<b>\$ 565,453</b>
Common shares outstanding subject to possible conversion	1,034,483	932,171	1,034,483	337,959	
<b>Basic and diluted net income per share subject to possible conversion</b>	<b>\$ 0.03</b>	<b>\$ 0.07</b>	<b>\$ 0.17</b>	<b>\$ 0.18</b>	
Weighted average common shares outstanding	5,265,517	4,856,015	5,265,517	2,477,679	
<b>Basic and diluted net income per share</b>	<b>\$ 0.02</b>	<b>\$ 0.03</b>	<b>\$ 0.07</b>	<b>\$ 0.06</b>	

*See accompanying summary of significant accounting policies and notes to unaudited financial statements*

**RHAPSODY ACQUISITION CORP**  
(A CORPORATION IN THE DEVELOPMENT STAGE)  
STATEMENT OF STOCKHOLDERS' EQUITY

*For the period April 24, 2006 (inception) to December 31, 2007*

	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Retained Earnings Accumulated During the Development Stage	Stockholders' Equity
Balance, April 24, 2006	-	\$ -	\$ -	\$ -	\$ -
Common shares issued to initial stockholders	1,125,000	113	24,887	-	25,000
Sale of 5,175,000 units, net of underwriter's discount and offering expenses (includes 1,034,483 shares subject to possible conversion)	5,175,000	517	38,419,042	-	38,419,559
Net proceeds subject to possible conversion (1,034,483 shares)	(1,034,483)	(103)	(7,851,623)	-	(7,851,726)
Proceeds from issuance of underwriter's purchase option	-	-	100	-	100
Proceeds from issuance of insider warrants	-	-	1,250,000	-	1,250,000
Accretion of trust fund relating to common stock subject to possible conversion	-	-	(128,700)	-	(128,700)
Net income from inception through March 31, 2007	-	-	-	351,102	351,102
Balance at March 31, 2007 (Audited)	5,265,517	\$ 527	\$ 31,713,706	\$ 351,102	\$ 32,065,335
Accretion of trust fund relating to common stock subject to possible conversion (Unaudited)	-	-	(172,034)	-	(172,034)
Net income from April 1, 2007 through December 31, 2007 (Unaudited)	-	-	-	515,085	515,085
Balance at December 31, 2007 (Unaudited)	5,265,517	\$ 527	\$ 31,541,672	\$ 866,187	\$ 32,408,386

*See accompanying summary of significant accounting policies and notes to unaudited financial statements*

**RHAPSODY ACQUISITION CORP**  
(A CORPORATION IN THE DEVELOPMENT STAGE)  
STATEMENTS OF CASH FLOWS

*Statement of Cash Flows*

	<i>Nine Months Ended December 31, 2007 (Unaudited)</i>	<i>Period from April 24, 2006 (inception) to December 31, 2006 (Unaudited)</i>	<i>Period from April 24, 2006 (inception) to December 31, 2007 (Unaudited)</i>
<b>OPERATING ACTIVITIES</b>			
<b>Net Income for the period</b>	<b>\$ 515,085</b>	<b>\$ 199,667</b>	<b>\$ 866,187</b>
Adjustments to reconcile net income to net cash used in operating activities:			
Trust Fund Interest Income	(1,060,600)	(305,548)	(1,704,422)
Change in operating assets and liabilities:			
(Increase) Decrease in prepaid expenses and other	47,716	(79,557)	(16,224)
Increase (Decrease) in accrued expenses and taxes	(15,434)	35,731	26,057
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (513,233)</b>	<b>\$ (149,707)</b>	<b>\$ (828,402)</b>
<b>INVESTING ACTIVITIES</b>			
Cash Contributed to Trust Fund	-	(39,278,250)	(39,278,250)
Cash Withdrawals from Trust Fund	200,000	-	200,000
<b>Net cash provided by (used in) investing activities</b>	<b>\$ 200,000</b>	<b>\$ (39,278,250)</b>	<b>\$ (39,078,250)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from sale of shares of common stock to initial stockholders	-	25,000	25,000
Proceeds from note payable, stockholder	-	-	-
Proceeds from sale of underwriters' purchase option	-	100	100
Proceeds from issuance of insider warrants	-	1,250,000	1,250,000
Portion of proceeds from sale of units through public offering, subject to possible conversion	-	7,851,726	7,851,726
Net proceeds from sale of units through public offering allocable to stockholders' equity	-	30,981,833	30,981,833
Deferred offering costs	-	-	-
<b>Net cash provided by financing activities</b>	<b>\$ -</b>	<b>\$ 40,108,659</b>	<b>\$ 40,108,659</b>
<b>Net increase in cash and cash equivalents</b>	<b>\$ (313,233)</b>	<b>\$ 680,702</b>	<b>\$ 202,007</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>515,240</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 202,007</b>	<b>\$ 680,702</b>	<b>\$ 202,007</b>
<b>Supplemental disclosure of non-cash financing activities</b>			
Fair value of underwriter purchase option included in offering costs	\$ -	\$ 1,687,500	\$ 1,687,500
Deferred underwriting fee	\$ -	\$ 414,000	\$ 414,000
Accretion of trust account relating to common stock subject to conversion	\$ 172,034	\$ 61,075	\$ 300,734

Edgar Filing: Rhapsody Acquisition Corp. - Form 10QSB

Cash paid for taxes	\$	36,000	\$	-	\$	182,487
---------------------	----	--------	----	---	----	---------

*See accompanying summary of significant accounting policies and notes to unaudited financial statements*

-6-

---

**RHAPSODY ACQUISITION CORP**  
(A CORPORATION IN THE DEVELOPMENT STAGE)  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<b>Income taxes</b>	<p>The Company follows Statement of Financial Accounting Standards No. 109 (“SFAS No. 109”), “Accounting for Income Taxes” which is an asset and liability approach that has been recognized in the Company’s financial statements. The Company has a net operating loss carryforward of approximately \$648,000 available to reduce any future federal income taxes. The tax benefit of this loss, approximately \$259,000, has been fully offset by a valuation allowance due to the uncertainty of its realization.</p>
<b>Net income per common share</b>	<p>Basic earnings (loss) per share excludes dilution and is computed by dividing income (loss) available to common stockholders by the weighted average common shares outstanding for the period. Calculation of the weighted average common shares outstanding during the period is based on 1,125,000 initial shares outstanding throughout the period from April 24, 2006 (inception) to December 31, 2007 and 4,140,517 common shares outstanding after the effective date of the offering on October 3, 2006. Net income per share subject to possible conversion is calculated by dividing accretion of trust account relating to common stock subject to possible conversion by 1,034,483 common stock subject to possible conversion. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. At December 31, 2007, there were no such potentially dilutive securities.</p>
<b>Use of estimates</b>	<p>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 at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.</p>
<b>Concentration of credit risk</b>	<p>Financial instructions that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents. The Company maintains deposits in federally insured financial institutions in excess of federally insured limits. However, management believes the Company is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held.</p>



## Edgar Filing: Rhapsody Acquisition Corp. - Form 10QSB

### **Recently issued accounting standards**

In July 2006, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes, and Interpretation of FASB Statement No. 109.” FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements 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 an income tax return. FIN 48 also provides guidance in derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. FIN 48 is effective for the fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have a material impact on the Company’s financial statements.

-7-

---

**RHAPSODY ACQUISITION CORP**  
(A CORPORATION IN THE DEVELOPMENT STAGE)  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In September 2006, the FASB issued FASB Statement No. 157, Fair Value Measurements “SFAS No. 157”), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. The Company will evaluate the potential impact, if any, of the adoption of SFAS No. 157 on its financial position, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Options for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115” (“SFAS No. 159”). SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value. Upon adoption of SFAS No. 159, an entity may elect the fair value option of eligible items that exist at the adoption date. Subsequent to the initial adoption, the election of the fair value option should only be made at initial recognition of the assets or liability or upon a remeasurement event that gives rise to new-basis accounting. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value nor does it eliminate disclosure requirements included in other accounting standards. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and may be adopted earlier but only if the adoption is in the first quarter of the fiscal year. The Company is evaluating whether it will adopt SFAS No. 159.

In December 2007, the FASB issued SFAS 141 (revised 2007), *Business Combinations*, (“SFAS 141(R)”). SFAS 141(R) retains the fundamental requirements of the original pronouncement requiring that the purchase method be used for all business combinations, but also provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired and liabilities assumed arising from contingencies, the capitalization of in-process research and development at fair value, and the expensing of acquisition-related costs as incurred. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. In the event that the Company completes acquisitions subsequent to its adoption of SFAS 141 (R), the application of its provisions will likely have a material impact on the Company’s results of operations, although the Company is not currently able to estimate that impact.



**RHAPSODY ACQUISITION CORP**  
(A CORPORATION IN THE DEVELOPMENT STAGE)  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51*. SFAS 160 requires that ownership interests in subsidiaries held by parties other than the parent, and the amount of consolidated net income, be clearly identified, labeled and presented in the consolidated financial statements. It also requires once a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value. Sufficient disclosures are required to clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. It is effective for fiscal years beginning after December 15, 2008, and requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements are applied prospectively. The Company does not expect the adoption of SFAS 160 to have a material impact on its financial condition or 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 Company's consolidated financial statements.

**RHAPSODY ACQUISITION CORP**  
(A CORPORATION IN THE DEVELOPMENT STAGE)  
NOTES TO UNAUDITED FINANCIAL STATEMENTS

**1. Basis of Presentation**

The accompanying financial statements are unaudited and have been prepared in accordance with principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the Company's audited financial and related disclosures for the fiscal year ended March 31, 2007, included in the Company's Form 10-KSB, filed on June 25, 2007.

In the opinion of management, all adjustments (consisting primarily of normal accruals) have been made that are necessary to present fairly the financial position of the Company. Operating results for the interim period presented are not necessarily indicative of the results to be expected for a full year.

**2. Organization and Business Operations**

Rhapsody Acquisition Corp. (the "Company") was incorporated in Delaware on April 24, 2006 as a blank check company whose objective is to acquire an operating business. The Company has selected March 31 as its fiscal year end.

The registration statement for the Company's initial public offering ("Offering") was declared effective on October 3, 2006. The Company consummated the offering on October 10, 2006 and received net proceeds of approximately \$39,000,000 (Note 3). The Company's management has broad discretion with respect to the specific application of the net proceeds of this Offering, although substantially all of the net proceeds of this Offering are intended to be generally applied toward consummating a business combination with an operating business ("Business Combination"). Furthermore, there is no assurance that the Company will be able to successfully effect a Business Combination. An amount of \$40,782,672 (including interest of \$1,504,422, after the transfer of \$200,000 of interest income, see below), which includes \$1,250,000 relating to the sale of insider warrants and \$414,000 deferred payment to the underwriter, of the net proceeds is being held in an interest-bearing trust account ("Trust Account") until the earlier of (i) the consummation of a Business Combination or (ii) liquidation of the Company. Under the agreement governing the Trust Account, funds will only be invested in United States "government securities" within the meaning of Section 2(a)(16) of the Investment Company Act of 1940 with 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. The placing of funds in the Trust Account may not protect those funds from third party claims against the Company. Although the Company will seek to have all vendors, prospective target businesses or other entities it engages, execute 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. The Company's Chairman of the Board, Chief Executive Officer and President has agreed that he will be personally liable under certain circumstances to ensure that the proceeds in the Trust Account are not reduced by the claims of target businesses or vendors or other entities that are owed money by the Company for services rendered contracted for or products sold to the Company. However, there can be no assurance that he will be able to satisfy those 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. On October 3, 2007, pursuant to paragraph 1(j) of the Investment Management Trust Agreement between Rhapsody Acquisition Corp. and Continental Stock Transfer & Trust Company ("Trustee"), Rhapsody requested that \$200,000 of accumulated interest be released from the Trust Fund to fund expenses related to investigating and selecting a target business, income and other taxes and other working

capital requirements.

-10-

---

**RHAPSODY ACQUISITION CORP**  
(A CORPORATION IN THE DEVELOPMENT STAGE)  
NOTES TO UNAUDITED FINANCIAL STATEMENTS

The Company, after signing a definitive agreement for the acquisition of a target business, will submit such transaction for stockholder approval. In the event that stockholders owning 20% 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 and directors of the Company ("Initial Stockholders"), have agreed to vote their 1,125,000 founding shares of 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 be applicable.

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 shares. 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 the Offering. Accordingly, Public Stockholders holding 19.99% of the aggregate number of shares owned by all Public Stockholders 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. Accordingly, a portion of the net proceeds from the offering (19.99% of the amount held in the Trust Account and interest earned) has been classified as common stock subject to possible conversion in the accompanying December 31, 2007 balance sheet.

The Company's Amended and Restated Certificate of Incorporation provides for mandatory liquidation of the Company in the event that the Company does not consummate a Business Combination by October 3, 2008. In the event of liquidation, it is likely 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 share in the Offering due to costs related to the Offering and since no value would be attributed to the Warrants contained in the Units sold (Note 3).

**RHAPSODY ACQUISITION CORP**  
(A CORPORATION IN THE DEVELOPMENT STAGE)  
NOTES TO UNAUDITED FINANCIAL STATEMENTS

**3. Initial Public Offering**

On October 10, 2006, the Company sold 5,175,000 units ("Units") in the Offering, which included 675,000 units subject to the underwriter's over-allotment option. Each Unit consists of one share of the Company's common stock, \$.0001 par value, and one Redeemable Common Stock Purchase Warrant(s) ("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 the completion of a Business Combination or one year from the effective date of the Offering and expiring four years from the effective date of the Offering. The Warrants will be redeemable, at the Company's option, with the prior consent of EarlyBirdCapital, Inc., the representative of the underwriters in the Offering ("Representative"), 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 \$11.50 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. If the Company redeems the Warrants as described above, management will have the option to require any holder that wishes to exercise his Warrant to do so on a "cashless basis." In such event, the holder would pay the exercise price by surrendering his Warrants for that number of shares of Common Stock equal to the quotient obtained by dividing (x) the product of the number of shares of Common Stock underlying the Warrants, multiplied by the difference between the exercise price of the Warrants and the "fair market value" (defined below) by (y) the fair market value. The "fair market value" shall mean the average reported last sale price of the Common Stock for the 10 trading days ending on the third trading day prior to the date on which the notice of redemption is sent to holders of Warrants. 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.

The Company agreed to pay the underwriters in the Offering an underwriting discount of 5.5% of the gross proceeds of the Offering and a non-accountable expense allowance of 0.5% of the gross proceeds of the Offering. However, the underwriters have agreed that 1.0% of the underwriting discount will not be payable unless and until the Company completes a Business Combination and has waived their right to receive such payment upon the Company's liquidation if it is unable to complete a Business Combination. In connection with this Offering, the Company also issued an option ("Option"), for \$100, to the Representative to purchase 450,000 Units at an exercise price of \$8.80 per Unit. The Units issuable upon exercise of the Option are identical to the Units sold in the Offering. The Company accounted for the fair value of the Option, inclusive of the receipt of the \$100 cash payment, as an expense of the Offering resulting in a charge directly to stockholders' equity. The Company estimated that the fair value of the Option was \$1,687,500 (\$3.75 per Unit) using a Black-Scholes option-pricing model. The fair value of the Option granted to the Representative was estimated as of the date of grant using the following assumptions: (1) expected volatility of 50.99%, (2) risk-free interest rate of 4.56% and (3) expected life of 5 years. The Option may be exercised for cash or on a "cashless" basis, at the holder's option, such that the holder may use the appreciated value of the Option (the difference between the exercise prices of the Option and the underlying Warrants and the market price of the Units and underlying securities) to exercise the option without the payment of any cash. The Company will have no obligation to net cash settle the exercise of the unit purchase option or the Warrants underlying the unit purchase option. The holder of the unit purchase option will not be entitled to exercise the unit purchase option or the Warrants underlying the unit purchase option unless a registration statement covering the securities underlying the unit purchase option is effective or an exemption from registration is available. If the holder is unable to exercise the Option or underlying Warrants, the Option or Warrants, as applicable, will expire worthless.





**RHAPSODY ACQUISITION CORP**  
(A CORPORATION IN THE DEVELOPMENT STAGE)  
NOTES TO UNAUDITED FINANCIAL STATEMENTS

#### 4. Commitments

The Company presently occupies office space provided by an affiliate of the Company's Chairman of the Board, Chief Executive Officer and President. Such affiliate has agreed that, until the Company consummates a Business Combination, it will make such office space, as well as certain office and secretarial services, available to the Company, as may be required by the Company from time to time. The Company has agreed to pay such affiliate \$7,500 per month for such office space services commencing on the effective date of the Offering (October 3, 2006). Included in general and administrative costs is \$22,500 that has been paid in this respect for the three month period ended December 31, 2007, \$22,016 paid for the three months ended December 31, 2006, \$67,500 paid for the nine months ended December 31, 2007, \$22,016 paid for the period from inception to December 31, 2006 and \$112,016 paid from inception through December 31, 2007.

Pursuant to letter agreements with the Company and the Representative, the Initial Stockholders have waived their right to receive distributions with respect to their founding shares upon the Company's liquidation.

Four of the Initial Stockholders and one affiliate of an Initial Stockholder committed to purchase 1,136,364 Warrants ("Insider Warrants") at \$1.10 per Warrant (for an aggregate purchase price of \$1,250,000) privately from the Company. These purchases took place simultaneously with the consummation of the Offering. All of the proceeds received from these purchases were placed in the Trust Account. The Insider Warrants purchased by such purchasers are identical to the Warrants underlying the Units offered in the Offering except that if the Company calls the Warrants for redemption, the Insider Warrants may be exercisable on a "cashless basis," at the holder's option (except in the case of a forced cashless exercise upon the Company's redemption of the Warrants, as described above), so long as such securities are held by such purchasers or their affiliates. Furthermore, the purchasers have agreed that the Insider Warrants will not be sold or transferred by them until after the Company has completed a Business Combination.

The Initial Stockholders and holders of the Insider Warrants (or underlying securities) are entitled to registration rights with respect to their founding shares or Insider Warrants (or underlying securities). The holders of the majority of the founding shares are entitled to demand that the Company register these shares at any time commencing three months prior to the first anniversary of the consummation of a Business Combination. The holders of the Insider Warrants (or underlying securities) are entitled to demand that the Company register such securities at any time after the Company consummates a Business Combination. In addition, the Initial Stockholders and holders of the Insider Warrants (or underlying securities) have certain "piggy-back" registration rights on registration statements filed after the Company's consummation of a Business Combination.

The Representative has been engaged by the Company to act as the Company's non exclusive investment banker in connection with a proposed Business Combination. For assisting the Company in structuring and negotiating the terms of a Business Combination, the Company will pay the Representative a cash transaction fee equal to 1% of the total consideration paid in connection with the Business Combination, with a maximum fee to be paid of \$360,000.

## **5. 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 agreement with the underwriters 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.

## **6. Common Stock**

The Company is authorized to issue 15,000,000 shares of common stock, of which 6,300,000 were issued and outstanding as of December 31, 2007, including 1,034,483 common shares subject to possible conversion.

At December 31, 2007, 7,211,364 shares of common stock were reserved for issuance upon exercise of the Warrants and the Option.

The Company currently has no commitments to issue any shares of common stock other than as described herein; however, the Company will, in all likelihood, issue a substantial number of additional shares in connection with a Business Combination. To the extent that additional shares of common stock are issued, dilution to the interests of the Company's stockholders who participated in the Offering will occur.

## **7. Income Taxes**

Deferred income taxes are provided for the differences between the bases 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.

Rhapsody has made state and local income tax provisions of \$39,174 for the three month period ended December 31, 2007, \$35,731 for the three months ended December 31, 2006, \$117,384 for the nine months ended December 31, 2007, \$35,731 for the period from inception to December 31, 2006 and \$190,338 from inception through December 31, 2007. Since the majority of the Company's interest income is not subject to federal income taxes, Rhapsody generated a net operating loss of approximately \$648,000 since inception for federal income tax purposes. A full valuation allowance was made for the resulting deferred tax asset, as it is uncertain if and when the Company will be able to utilize this net operating loss.

Franchise taxes incurred in the State of Delaware of \$9,145 (\$44,689 since inception) are included in the general and administrative expenses.

## ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements and footnotes thereto contained in this report.

### Overview

We were formed on April 24, 2006 to serve as a vehicle to effect a merger, capital stock exchange, asset acquisition or other similar business combination with an operating business. Until consummation of our initial public offering in October 2006, all of our activity related to our formation and initial public offering. Since then, we have been searching for prospective target businesses to acquire. We intend to utilize cash derived from the proceeds of our recently completed public offering, our capital stock, debt or a combination of cash, capital stock and debt, in effecting a business combination.

### Forward Looking Statements

The statements discussed in this Report include forward looking statements that involve risks and uncertainties detailed from time to time in the Company's reports filed with the Securities and Exchange Commission.

### Results of Operations

Net income for the three months ended December 31, 2007 of \$133,665 consisted of \$340,783 of interest income, offset by \$22,500 of monthly administrative fees, \$15,963 of directors and officers liability insurance, \$9,145 of Delaware franchise taxes, \$2,601 of travel expenses, \$114,052 of professional fees and licenses, \$3,683 of other operating costs and \$39,174 state and local taxes. Since the majority of the Company's interest income is not subject to federal income taxes, Rhapsody generated a net operating loss of approximately \$167,000 for federal income tax purposes. A full valuation allowance was made for the resulting deferred tax asset, as it is uncertain if and when the Company will be able to utilize this net operating loss.

Net income for the three months ended December 31, 2006 of \$201,217 consisted of \$310,467 of interest income, offset by \$22,016 of monthly administrative fees, \$15,443 of directors and officers liability insurance, \$11,753 of printing expenses, \$10,000 of marketing expenses, \$9,162 of travel expenses, \$4,417 of professional fees, \$728 of other operating costs and \$35,731 of state and local taxes. Since the majority of the Company's interest income is not subject to federal income taxes, Rhapsody generated a net operating loss of approximately \$69,000 for federal income tax purposes. A full valuation allowance was made for the resulting deferred tax asset, as it is uncertain if and when the Company will be able to utilize this net operating loss.

Net income for the nine months ended December 31, 2007 of \$515,085 consisted of \$1,066,351 of interest income, offset by \$67,500 of monthly administrative fees, \$47,717 of directors and officers liability insurance, \$81,579 of marketing expenses, \$19,812 of Delaware franchise taxes, \$24,403 of travel expenses, \$191,478 of professional fees and licenses, \$1,393 of other operating costs and \$117,384 of state and local taxes. Since the majority of the Company's interest income is not subject to federal income taxes, Rhapsody generated a net operating loss of approximately \$428,000 for federal income tax purposes. A full valuation allowance was made for the resulting deferred tax asset, as it is uncertain if and when the Company will be able to utilize this net operating loss.

Net income for the period from April 24, 2006 (inception) to December 31, 2006 of \$199,667 consisted of \$310,711 of interest income, offset by \$22,016 of monthly administrative fees, \$15,443 of directors and officers liability insurance, \$11,753 of printing expenses, \$10,000 of marketing expenses, \$9,309 of travel expenses, \$4,417 of professional fees, \$2,375 of other operating costs and \$35,731 of state and local taxes. Since the majority of the Company's interest income is not subject to federal income taxes, Rhapsody generated a net operating loss of approximately \$70,000 for federal income tax purposes. A full valuation allowance was made for the resulting deferred tax asset, as it is uncertain if and when the Company will be able to utilize this net operating loss.

Net income for the period from April 24, 2006 (inception) to December 31, 2007 of \$866,187 consisted of \$1,720,407 of interest income, offset by \$112,016 of monthly administrative fees, \$78,776 of directors and officers liability insurance, \$155,193 of marketing expenses, \$44,689 of Delaware franchise taxes, \$42,298 of travel expenses, \$216,073 of professional fees and licenses, \$11,658 of printing costs, \$3,179 of other operating costs and \$190,338 of state and local taxes. Since the majority of the Company's interest income is not subject to federal income taxes, Rhapsody generated a net operating loss of approximately \$648,000 for federal income tax purposes. A full valuation allowance was made for the resulting deferred tax asset, as it is uncertain if and when the Company will be able to utilize this net operating loss.

We consummated our initial public offering on October 10, 2006. Gross proceeds from our initial public offering were \$41,400,000. We paid a total of \$2,018,000 in underwriting discounts and commissions, and \$548,441 was paid for costs and expenses related to the offering. After deducting the underwriting discounts and commissions and the offering expenses, the total net proceeds to us from the offering were \$38,833,559, of which \$38,028,250 was deposited into the trust account. In addition, all of the proceeds from the private sale of the warrants (\$1,250,000) were deposited into the trust fund, for a total of \$39,278,250 held in trust (or approximately \$7.59 per share sold in the offering). The remaining proceeds are available to be used by us to provide for business, legal and accounting due diligence on prospective acquisitions and continuing general and administrative expenses. We will use substantially all of the net proceeds of this offering to acquire a target business, including 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 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 may also need to raise additional funds from our officers, directors, stockholders or other available sources in order to meet the expenditures required for operating our business, although we have no commitments for such borrowings at this time. 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.

Commencing on October 3, 2006 and ending upon the acquisition of a target business, we began incurring a fee from Crescendo Advisors II LLC, an affiliate of Eric S. Rosenfeld, our chairman of the board, chief executive officer and president, of \$7,500 per month for providing us with office space and certain general and administrative services through December 31, 2007, we had incurred \$112,016 for full services. In addition, in May 2006, Mr. Rosenfeld advanced \$90,000 to us for payment on our behalf of offering expenses. This amount was repaid following our initial public offering from the net proceeds of the offering.

**ITEM 3. 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 and treasurer, as appropriate to allow timely decisions regarding disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our chief executive officer and chief financial officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2007. Based on their evaluation, they concluded that our disclosure controls and procedures were effective.

Our internal control over financial reporting is a process designed by, or under the supervision of, our chief executive officer and chief financial 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. Internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that in reasonable detail accurately 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, 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.

**PART II.**

**OTHER INFORMATION**

**ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On October 10, 2006, we consummated our initial public offering of 5,175,000 units, including 675,000 units subject to the over-allotment option, with each unit consisting of one share of our common stock and one warrant, to purchase one share of our common stock at an exercise price of \$5.00 per share. The units were sold at an offering price of \$8.00 per unit, generating total gross proceeds of \$41,400,000. Simultaneously with the consummation of our initial public offering, we consummated the private sale of 1,136,364 warrants at \$1.10 per warrant to certain of our initial stockholders and affiliates for an aggregate purchase price of \$1,250,000. EarlyBirdCapital, Inc. acted as representative of 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. 333-134694). The Securities and Exchange Commission declared the registration statement effective on October 3, 2006.

We incurred a total of \$2,018,000 in underwriting discounts and commissions, and \$548,341 has been paid for costs and expenses related to the offering.

After deducting the underwriting discounts and commissions and the offering expenses, the total net proceeds to us from the offering were \$38,833,559, of which \$38,028,250 was deposited into a trust fund and the remaining proceeds are available to be used to provide for business, legal and accounting due diligence on prospective business combinations and continuing general and administrative expenses. In addition, all of the proceeds from the private sale of the warrants were deposited into the Trust Fund, for a total of \$39,278,250 (or approximately \$7.59 per share sold in the offering).

For a description of the use of the proceeds generated in our initial public offering, see Part I, Item 2 of this Form 10-QSB.

**ITEM 6: EXHIBITS**

(a) Exhibits:

31.1 - Section 302 Certification by CEO

31.2 - Section 302 Certification by CFO

32.1 - Section 906 Certification by CEO

32.2 - Section 906 Certification by CFO

-18-

---

**SIGNATURES**

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

**RHAPSODY AQUISITION CORP.**

Dated: February 13, 2008

/s/ Eric S. Rosenfeld

---

Eric S. Rosenfeld  
Chief Executive Officer

/s/ David D. Sgro

---

David D. Sgro  
Chief Financial Officer