Prospect Acquisition Corp
Form 10-Q
August 07, 2009
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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

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# FORM 10-Q

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

**For the quarterly period ended June 30, 2009**

**or**

| | |
|---|---|
| **o** | **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: 001-33824**

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## Prospect Acquisition Corp.

(Exact name of registrant as specified in its charter)

| **Delaware** | **26-0508760** |
|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

**9130 Galleria Court, Suite 318**

| | |
|---|---|
| **Naples, FL** | **34109** |
| (Address of Principal Executive Offices) | (Zip Code) |

Registrant s telephone number, including area code: **(239) 254-4481**

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

| | |
|---|---|
| Large accelerated filer o | Accelerated filer x |
| Non-accelerated filer o<br>(Do not check is a smaller reporting company) | Smaller reporting company o |

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

The number of shares of common stock, par value $0.0001 per share, outstanding as of July 31, 2009 was 31,250,000.

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## PART I: FINANCIAL INFORMATION

### ITEM 1 FINANCIAL STATEMENTS

**Prospect Acquisition Corp.**

**(a development stage company)**

**Condensed Balance Sheets**

| | June 30, 2009 (Unaudited) | December 31, 2008 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 9,425 | $ 28,678 |
| Investments held in Trust Account | 248,535,987 | 248,924,201 |
| Accrued interest income on Trust Account | 2,616 | 59,219 |
| Prepaid expenses | 40,122 | 60,716 |
| Prepaid taxes | 212,270 | 203,588 |
| Total current assets | 248,800,420 | 249,276,402 |
| Deferred tax asset | 315,649 | 173,158 |
| Total assets | $ 249,116,069 | $ 249,449,560 |
| | | |
| **Liabilities and Stockholders Equity** | | |
| Current liabilities: | | |
| Accrued expenses | $ 100,957 | $ 186,097 |
| Deferred interest income | 76,181 | 67,148 |
| Deferred underwriting commission | 10,000,000 | 10,000,000 |
| Total liabilities | 10,177,138 | 10,253,245 |
| **Common stock, subject to possible conversion, 7,499,999 shares** | 74,099,990 | 74,099,990 |
| | | |
| **Commitments and contingencies** | | |
| **Stockholders equity** | | |
| Preferred stock, $0.0001 par value; 1,000,000 shares authorized; none issued and outstanding | | |
| Common stock, $0.0001 par value; 72,000,000 shares authorized; 31,250,000 shares (including 7,499,999 subject to possible conversion) issued and outstanding | 3,125 | 3,125 |
| Additional paid-in capital | 162,966,787 | 162,966,787 |
| Retained earnings accumulated during the development stage | 1,869,029 | 2,126,413 |
| Total stockholders equity | 164,838,941 | 165,096,325 |
| Total liabilities and stockholders equity | $ 249,116,069 | $ 249,449,560 |

See notes to unaudited condensed financial statements.

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**Prospect Acquisition Corp.**

**(a development stage company)**

**Condensed Statements of Operations**

**(Unaudited)**

| | For the three months ended June 30, 2009 | For the three months ended June 30, 2008 | For the six months ended June 30, 2009 | For the six months ended June 30, 2008 | For the period from July 9, 2007 (date of inception) through June 30, 2009 |
|---|---|---|---|---|---|
| **Interest income** | $ 26,448 | $ 906,706 | $ 50,183 | $ 2,528,586 | $ 5,006,560 |
| **Deferred interest income** | 4,761 | | 9,033 | | 76,181 |
| **Net interest income** | 21,687 | 906,706 | 41,150 | 2,528,586 | 4,930,379 |
| | | | | | |
| **Operating expenses:** | | | | | |
| Capital & franchise taxes | 36,375 | 101,650 | 73,254 | 257,329 | 1,054,663 |
| Professional fees | 79,219 | 64,760 | 242,409 | 161,039 | 517,862 |
| Formation and operating costs | 45,800 | 44,011 | 89,428 | 103,923 | 299,573 |
| Rent and office expenses | 22,308 | 22,500 | 44,616 | 45,000 | 146,416 |
| | 183,702 | 232,921 | 449,707 | 567,291 | 2,018,514 |
| Net (loss) income before income taxes | (162,015) | 673,785 | (408,557) | 1,961,295 | 2,911,865 |
| Income tax (benefit) provision | (51,606) | 230,061 | (151,173) | 693,110 | 1,042,836 |
| Net (loss) income | $ (110,409) | $ 443,724 | $ (257,384) | $ 1,268,185 | $ 1,869,029 |
| | | | | | |
| Weighted average number of common shares outstanding: | | | | | |
| Basic and diluted | 31,250,000 | 31,250,000 | 31,250,000 | 31,250,000 | 26,864,179 |
| Net income per share: | | | | | |
| Basic and diluted | $ (0.00) | $ 0.01 | $ (0.01) | $ 0.04 | $ 0.07 |

See notes to unaudited condensed financial statements.

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**Prospect Acquisition Corp.**

**(a development stage company)**

**Condensed Statements of Stockholders Equity**

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Retained Earnings Accumulated During the Development Stage | Total Stockholders Equity |
|---|---|---|---|---|---|
| Common shares issued to initial stockholders on July 18, 2007 at approximately $.003 per share | 7,187,500 | $ 719 | $ 24,281 | $ | $ 25,000 |
| Sale of 25,000,000 units, net of underwriters discount and offering expenses of $18,205,004 (includes 7,499,999 shares subject to possible conversion) | 25,000,000 | 2,500 | 231,792,496 | | 231,794,996 |
| Proceeds subject to possible conversion of 7,499,999 shares | | | (74,099,990) | | (74,099,990) |
| Proceeds from issuance of Sponsors Warrants | | | 5,250,000 | | 5,250,000 |
| Repurchase of 937,500 common shares issued to initial stockholders | (937,500) | (94) | | | (94) |
| Net income | | | | 615,198 | 615,198 |
| Balance at December 31, 2007 | 31,250,000 | 3,125 | 162,966,787 | 615,198 | 163,585,110 |
| Net income | | | | 1,511,215 | 1,511,215 |
| Balance at December 31, 2008 | 31,250,000 | 3,125 | 162,966,787 | 2,126,413 | 165,096,325 |
| Unaudited: | | | | | |
| Net loss | | | | (257,384) | (257,384) |
| Balance at June 30, 2009 | 31,250,000 | $ 3,125 | $ 162,966,787 | $ 1,869,029 | $ 164,838,941 |

See notes to unaudited condensed financial statements.

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**Prospect Acquisition Corp.**

**(a development stage company)**

**Condensed Statements of Cash Flows**

**(Unaudited)**

| | For the six months ended June 30, 2009 | For the six months ended June 30, 2008 | For the period from July 9, 2007 (date of inception) through June 30, 2009 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net (loss) income | $ (257,384) | $ 1,268,185 | $ 1,869,029 |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: | | | |
| Interest income earned on Trust Account | (50,183) | (2,528,586) | (5,006,560) |
| Changes in assets and liabilities: | | | |
| Decrease (increase) in prepaid expenses | 11,912 | (228,560) | (252,392) |
| Increase in deferred tax asset | (142,491) | (100,200) | (315,649) |
| (Decrease) increase in accrued expenses | (85,140) | 2,535 | 100,957 |
| Increase in deferred interest income | 9,033 | | 76,181 |
| Increase in income taxes payable | | (392,498) | |
| Net cash used in operating activities | (514,253) | (1,979,124) | (3,528,434) |
| **Cash flows from investing activities** | | | |
| Cash placed in Trust Account | | | (247,000,000) |
| Cash withdrawn from Trust Account | 495,000 | 1,964,265 | 3,467,957 |
| Net cash provided by (used in) investing activities | 495,000 | 1,964,265 | (243,532,043) |
| **Cash flows from financing activities** | | | |
| Gross proceeds from initial public offering | | | 250,000,000 |
| Proceeds from issuance of Sponsors Warrants | | | 5,250,000 |
| Proceeds from sale of shares of common stock to initial stockholders | | | 25,000 |
| Proceeds from notes payable to stockholders | | | 200,000 |
| Repayment of notes payable to stockholders | | | (200,000) |
| Repurchase of common shares from initial stockholders | | | (94) |
| Payment of offering costs | | (38,216) | (8,205,004) |
| Net cash (used in) provided by financing activities | | (38,216) | 247,069,902 |
| Net (decrease) increase in cash | (19,253) | (53,075) | 9,425 |
| | | | |
| Cash at beginning of period | 28,678 | 58,075 | |
| Cash at end of period | $ 9,425 | $ 5,000 | $ 9,425 |
| | | | |
| **Supplemental disclosure of non-cash financing activities** | | | |
| Deferred underwriting commission | | | $ 10,000,000 |
| **Supplemental disclosure of cash flow information** | | | |
| Cash paid during the period for income taxes | $ | $ 1,508,580 | $ 1,646,332 |

See notes to unaudited condensed financial statements.

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**Prospect Acquisition Corp.**

**(a development stage company)**

**Notes to Unaudited Condensed Financial Statements**

**1.** Interim Financial Information

Prospect Acquisition Corp. s (the Company ) unaudited condensed interim financial statements as of June 30, 2009, for the three and six month periods ended June 30, 2009 and 2008, and for the period from July 9, 2007 (date of inception) through June 30, 2009, have been prepared by the Company 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 period presented are not necessarily indicative of the results to be expected for any other interim period or for the full year. The Company has evaluated subsequent events through the filing date, August 7, 2009.

These unaudited condensed interim financial statements should be read in conjunction with the audited financial statements and notes thereto for the period ended December 31, 2008 included in the Company s Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission on March 16, 2009. The December 31, 2008 balance sheet and the changes in stockholders equity through December 31, 2008 have been derived from those audited financial statements. The accounting policies used in preparing these unaudited financial statements are consistent with those described in the December 31, 2008 audited financial statements. Certain prior year balances have been reclassified to conform with the current year presentation.

If we are unable to complete a business combination by November 14, 2009 we will be forced to liquidate. Currently, we are rigorously evaluating several opportunities for potential targets, however have not yet entered into any definitive agreements toward a transaction. There is no assurance that we will successfully complete a Business Combination by November 14, 2009. These factors, among others, raise substantial doubt about the Company s ability to continue operations as a going concern. The accompanying financial statements do not include any adjustments that may result from the outcome of this uncertainty.

**2.** Organization, Business Operations and Significant Accounting Policies

The Company was incorporated in Delaware on July 9, 2007, and is a blank check company formed for the purpose of acquiring control of, through a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or other similar business combination, one or more operating businesses or assets in the financial services industry (a Business Combination ). At June 30, 2009, the Company s operations related to the Company s formation and the initial public offering described below.

The registration statement for the Company s initial public offering (the Offering ) was declared effective November 14, 2007. The Company consummated the Offering on November 20, 2007 and received gross proceeds of $250,000,000 and $5,250,000 from the sale of Sponsors Warrants on a private placement basis (see Note 3). The Company s management has broad discretion with respect to the specific application of the net proceeds of the Offering, although substantially all of the net proceeds of the Offering are intended to be generally applied toward consummating a Business Combination. Furthermore, there is no assurance that the Company will be able to successfully effect a Business Combination. An amount of $247,000,000 (or approximately $9.88 per unit) of the net proceeds of the Offering and the sale of the Sponsors Warrants (see Note 3) was deposited in a trust account (the Trust Account ) and 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 its initial Business Combination or (ii) liquidation of the Company. At June 30, 2009, the Trust Account was invested in United States government securities and has been accounted for as a trading security. The placing of funds in the Trust Account may not protect those funds from third party claims against the Company. Although the Company has sought and 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. A Company officer and

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**Prospect Acquisition Corp.**

**(a development stage company)**

**Notes to Unaudited Condensed Financial Statements**

two initial stockholders have agreed that they 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, subject to limited exceptions. However, there can be no assurance that they will be able to satisfy those obligations. The remaining net proceeds (not held in the Trust Account) have been and will continue to be used to pay for business, legal and accounting due diligence on prospective acquisitions and continuing general and administrative expenses. Until the consummation of the initial Business Combination or the liquidation of the Company, proceeds held in the Trust Account will not be available for the Company s use for any purpose, except there can be released to the Company from the Trust Account (i) interest income earned on the Trust Account balance to pay any taxes on such interest and (ii) interest income earned of up to $2.75 million on the Trust Account balance to fund the Company s working capital requirements, provided that after such release there remains in the Trust Account a sufficient amount of interest income previously earned on the Trust Account balance to pay any due and unpaid taxes on income generated by the Trust Account.

| | | |
|---|---|---|
| Amounts placed in Trust | $ | 247,000,000 |
| Interest income received | | 5,003,944 |
| Amounts withdrawn for payment of federal & state taxes | | (2,387,057) |
| Amounts withdrawn for working capital | | (1,080,900) |
| Total | $ | 248,535,987 |

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. In the event that those persons that purchase securities in the Offering or thereafter ( Public 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 directors of the Company (the Initial Stockholders ), have agreed to vote all of their founding shares of common stock in accordance with the majority of the shares of common stock voted by the Public Stockholders with respect to any Business Combination.

After consummation of a Business Combination, these voting safeguards will no longer apply.

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 aggregate amount then on deposit in the Trust Account, before payment of deferred underwriting discounts and commissions and including accrued interest, net of taxes on such interest and net of interest income on the Trust Account balance released to the Company as described above, calculated as of two business days prior to the proposed consummation of the initial Business Combination, divided by the number of shares of common stock sold in the Offering. Accordingly, Public Stockholders holding not more than 30% of the shares (minus one share) sold in the Offering 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 (net of the tax and working capital items described above) computed without regard to the shares held by Initial Stockholders.

Accordingly, a portion of the net proceeds from the Offering (29.99% of the amount placed in the Trust Account) has been classified as common stock subject to possible conversion and a portion of the interest earned on the Trust Account (29.99%), after deducting the amounts permitted to be utilized for tax obligations and working capital purposes, has been recorded as deferred interest in the accompanying financial statements.

The Company s Certificate of Incorporation was amended on November 14, 2007 to provide that the Company will continue in existence only until 24 months from the effective date of the registration statement relating to the Offering (the Effective Date ), or November 14, 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 assets in the Trust Account) will be less than the initial public offering price per Unit in the Offering (assuming no value is attributed to the Warrants contained in the Units offered in the Offering discussed in Note 3) because of the expenses

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**Prospect Acquisition Corp.**

**(a development stage company)**

**Notes to Unaudited Condensed Financial Statements**

of the Offering, the Company s general and administrative expenses and the anticipated costs of seeking an initial Business Combination.

***Fair Value of Financial Instruments****:*

The fair values of the Company s assets and liabilities that qualify as financial instruments under Statement of Financial Accounting Standard ( SFAS ) No. 107, *Disclosures about Fair Value of Financial Instrument*, approximate their carrying amounts presented in the balance sheet based upon the short-term nature of the account at June 30, 2009.

***New Accounting Pronouncements:***

In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ( GAAP ) and expands disclosures about fair value measurements. SFAS 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS 157, fair value measurements are disclosed by level within that hierarchy. In February 2008, the FASB issued FASB Staff Position ( FSP ) No. 157-2, *Effective Date of FASB Statement No. 157*, which permits a one-year deferral for the implementation of SFAS 157 with regard to non-financial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The Company adopted SFAS 157 for the fiscal year beginning January 1, 2008, except for the non-financial assets and non-financial liabilities, which was adopted effective January 1, 2009. The adoption of the provisions of SFAS 157 did not have a material impact on the Company s financial position or results of operations.

In April 2009, the FASB issued three FSP s to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities. FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,* provides guidelines for making fair value measurements more consistent with the principles presented in SFAS 157. FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments,* enhances consistency in financial reporting by increasing the frequency of fair value disclosures. FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments,* provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. These three FSP s are effective for interim and annual periods ending after June 15, 2009. The adoption of the provisions of these FSP s did not have a material impact on the Company s financial position or results of operations

In June 2008, the FASB s Emerging Issues Task Force ( EITF ) reached a consensus on EITF Issue No. 07-5*, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock* ( EITF 07-5 ). EITF 07-5 provides a new two-step model to be applied in determining whether an equity-linked financial instrument, or embedded feature, is indexed to an entity s own stock. EITF 07-5 was effective for the quarter ended March 31, 2009. There was no impact on the financial position or results of operations as a result of the adoption of this new guidance.

In December 2007, the FASB issued SFAS No. 141(R)*, Business Combinations* ( SFAS 141R ) which establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. SFAS 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R will have an impact to the Company for any acquisitions consummated by the Company.

In December 2007, the FASB released SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* ( SFAS 160 ), which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent and for the deconsolidation of a subsidiary. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interest of the parent and the interests of the non-controlling owners. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008. SFAS 160 may have a material impact to the Company with respect to any acquisitions consummated by the Company.

**Prospect Acquisition Corp.**

**(a development stage company)**

**Notes to Unaudited Condensed Financial Statements**

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ( SFAS 165 ). SFAS 165 is intended to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, and is effective for interim and annual periods ending after June 15, 2009. The adoption of SFAS No. 165 has not materially impacted the Company s financial position or results of operations.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* SFAS 162. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in preparation of the financial statements of non governmental entities that are presented in conformity with U.S. GAAP (the GAAP hierarchy). In July 2009, the FASB issued SFAS No. 168, *The FASB Accounting Codification and the Hierarchy of Generally Accepted Accounting Principles* ( SFAS 168 ). SFAS 168 supersedes SFAS 162. SFAS 168 will become the source of authoritative U.S. generally accepted accounting principles ( GAAP ) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ( SEC ) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of SFAS 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of SFAS 168 is not expected to materially impact the Company s financial position 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 accompanying financial statements.

**3. Initial Public Offering**

On November 20, 2007, the Company sold 25,000,000 units (the Units ) at an offering price of $10.00 per Unit. The Company granted the underwriters an option to purchase up to an additional 3,750,000 Units solely to cover over- allotments. Said option could have been exercised in whole or in part at any time before the 30th day after the Effective Date, and has expired without having been exercised by the underwriters.

Each Unit consists of one share of the Company s common stock and one warrant exercisable for one share of common stock at an exercise price of $7.50 per share (a Warrant ). Each Warrant will be exercisable on the later of the completion of the initial Business Combination and fifteen months from the Effective Date, provided in each case that the Company has an effective registration statement covering the shares of common stock issuable upon exercise of the warrants and a current prospectus relating to them is available. The Warrants will expire five years from the Effective Date, unless earlier redeemed. The Company may call the Warrants for redemption, in whole and not in part, at any time after the Warrants become exercisable and there is an effective registration statement covering the shares of common stock issuable upon exercise of the warrants available and current throughout the 30-day Redemption Period defined hereafter, upon a minimum of 30 days prior written notice of redemption (the 30-day Redemption Period ) at a price of $0.01 per Warrant, only in the event that the last sale price of the common stock equals or exceeds $14.50 per share for any 20 trading days within a 30-trading day period ending on the third business day prior to the date on which the notice of redemption is sent to the Warrant holder. 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 from the date the warrants become exercisable until the warrants expire or are redeemed. 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 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 settle the warrant exercise, whether by net cash settlement or otherwise. Consequently, the Warrants may expire unexercised and unredeemed (and therefore worthless), and, as a result, an investor in the Offering may effectively pay the full Unit price solely for the shares of common stock included in the Units.

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**Notes to Unaudited Condensed Financial Statements**

The Company entered into an agreement with the underwriters of the Offering (the Underwriting Agreement ). The Underwriting Agreement requires the Company to pay 3% of the gross proceeds of the Offering as an underwriting discount plus an additional 4% of the gross proceeds of the Offering only upon consummation of a Business Combination. The Company paid an underwriting discount of 3% of the gross proceeds of the Offering ($7.5 million) in connection with the consummation of the Offering and has placed 4% of the gross proceeds of the Offering ($10 million) in the Trust Account. The $10 million amount due to the underwriters has been classified as deferred underwriting commission on the accompanying balance sheets. The Company did not have to pay any discount related to the Sponsors Warrants sold on a private placement basis. The underwriters have waived their right to receive payment of the 4% of the gross proceeds of the Offering upon the Company s liquidation if the Company is unable to complete a Business Combination.

Pursuant to purchase agreements dated November 14, 2007, certain of the Initial Stockholders have purchased from the Company, in the aggregate, 5,250,000 warrants for $5,250,000 (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 Sponsors Warrants are identical to the Warrants included in the Units offered in the Offering except that the Sponsors Warrants (i) are non-redeemable so long as they are held by the original purchasers or their permitted transferees, (ii) are subject to certain transfer restrictions and will not be exercisable while they are subject to these transfer restrictions and (iii) may be exercised for cash or on a cashless basis. The purchase price of the Sponsors Warrants has been determined to be the fair value of such warrants as of the purchase date.

The Initial Stockholders have waived their right to receive a liquidation distribution with respect to their founding shares upon the Company s liquidation if it is unable to complete a Business Combination.

**4. Fair Value Measurement**

As discussed in Note 2, the Company adopted SFAS 157. SFAS 157 requires new disclosure that establishes a framework for measuring fair value in GAAP, and expands disclosure about fair value measurements. SFAS 157 enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values.

SFAS 157 also requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels in which to categorize its assets and liabilities, the Company performs a detailed analysis of the assets and liabilities that are subject to SFAS 157. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

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**Prospect Acquisition Corp.**

**(a development stage company)**

**Notes to Unaudited Condensed Financial Statements**

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy.

| | Fair Value As of June 30, 2009 | Quoted Prices In Active Markets (Level 1) | Significant other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Investments held in Trust Account plus Accrued Interest Income on Trust Account | $ 248,538,603 | $ 248,538,603 | | |