

HAPC, Inc.  
Form 10-Q/A  
February 14, 2007  
Table of Contents

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

---

**FORM 10-Q/A**

(Amendment No. 2)

---

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2006.**

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: 000-51902

---

**HAPC, INC.**

(Exact name of registrant as specified in its charter)

---

**Delaware**  
(State or Other Jurisdiction of

Incorporation or Organization)

350 Madison Avenue, New York, New York, 10017

(Address of Principal Executive Offices including Zip Code)

**20-3341405**  
(I.R.S. Employer

Identification No.)

(212) 418-5070

## Edgar Filing: HAPC, Inc. - Form 10-Q/A

(Registrant's Telephone Number, Include Area Code)

---

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the 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 (check one).

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

As of August 10, 2006, 18,625,252 shares of the registrant's common stock, par value \$0.0001 per share, were outstanding.

---

**Table of Contents**

**HAPC, INC.**

**Explanatory Note**

As discussed in Note 4 to the condensed consolidated financial statements included herein, HAPC, INC. (the "Company") has restated in this Amendment No. 2 to Quarterly Report on Form 10-Q/A (the "Amendment No. 2 to Form 10-Q/A") the Condensed Consolidated Financial Statements as of June 30, 2006 and for the three and six months ended June 30, 2006, and the period from August 15, 2005 (inception) to June 30, 2006 and the period from January 1, 2006 to June 30, 2006 included in the Company's Quarterly Report on Form 10-Q/A for the quarterly period ended June 30, 2006 previously filed with the Securities and Exchange Commission (the "SEC") on November 14, 2006 (the "Form 10-Q/A") and originally filed with the SEC on August 10, 2006 (the "Form 10-Q").

On February 14, 2007, the management of the Company, after discussion with the Company's Audit Committee, determined that it was necessary for the Company to restate the Company's unaudited interim financial statements as of and for the three and six months ended June 30, 2006 previously filed with the SEC on November 14, 2006 included in the Form 10-Q/A for the quarter ended June 30, 2006.

The Company's Condensed Consolidated Financial Statements referenced above are restated to reflect gains and losses related to the warrants to purchase common stock associated with the units sold in connection with the Company's initial public offering in April 2006 and the partial exercise of the underwriter's over allotment option in May 2006. The Company had previously classified the value of these warrants to purchase common stock as equity. The Company has determined that these warrants should have been classified as liabilities and, therefore, the fair value of each warrant must be recorded as a liability on the Company's balance sheet. Subsequent changes in the fair values of these warrants results in adjustments to the amount of the recorded liability, and the corresponding gain or loss recorded in the Company's statement of operations. At the date of the conversion of each warrant or portion thereof (or exercise of the warrants or portion thereof, as the case may be), the corresponding liability will be reclassified to equity.

All the information in this Amendment No. 2 to Form 10-Q/A is as of November 14, 2006, the date we previously filed our Form 10-Q/A with the SEC, and does not reflect any subsequent information or events other than the restatement discussed in Note 4 to the condensed consolidated financial statements appearing in this Amendment No. 2 to Form 10-Q/A. For the convenience of the reader, this Amendment No. 2 to Form 10-Q/A sets forth the originally filed Form 10-Q in its entirety. However, the following items have been amended solely as a result of, and to reflect, the restatement, and no other information in the Form 10-Q is amended hereby as a result of the restatement:

Part I, Item 1, Financial Statements

Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations

Part I, Item 4, Controls and Procedures

Part II, Item 6, Exhibits

In accordance with applicable SEC rules, the Company is also including updated certifications of the Chief Executive Officer and Chief Financial Officer that are attached to this Form 10-Q/A as Exhibits 31.1, 31.2, 32.1 and 32.2.

**Table of Contents**

**HAPC, INC.**

**INDEX TO AMENDMENT NO. 2 TO FORM 10-Q**

	<b>PAGE</b>
<b><u>PART I - FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements:</u>	
<u>Balance Sheets</u>	1
<u>Statements of Operations</u>	2
<u>Statements of Stockholders' Deficit</u>	3-4
<u>Statements of Cash Flows</u>	5-6
<u>Notes to Financial Statements</u>	7-18
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
Item 4. <u>Controls and Procedures</u>	23
<b><u>PART II - OTHER INFORMATION</u></b>	
Item 6. <u>Exhibits</u>	25
<u>Signatures</u>	25

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****HAPC, INC.**

(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)

(a corporation in the development stage)

**BALANCE SHEETS**

	June 30, 2006 (Unaudited) (Restated)	December 31, 2005 (Audited)
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 997,268	\$ 13,590
Investments held in trust	96,877,683	
Prepaid expenses	482,100	
Other deferred offering costs		165,088
<b>Total assets</b>	<b>\$ 98,357,051</b>	<b>\$ 178,678</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities:</b>		
Accrued expenses	\$ 12,500	\$ 93,954
Stockholder advance	100	100
Notes payable		85,000
Deferred underwriting fees	5,468,000	
Warrant liabilities	10,125,151	
<b>Total Liabilities</b>	<b>15,605,751</b>	<b>179,054</b>
<b>COMMITMENTS</b>		
Common stock subject to possible conversion 3,373,363 and 0 shares, respectively at conversion value	19,365,849	
<b>Stockholders Equity (Deficit)</b>		
Preferred stock, \$.0001 par value; authorized 1,000,000 shares; none issued and outstanding		
Common stock, \$.0001 par value; authorized 200,000,000 shares; issued 21,041,918 and 4,166,667, respectively and outstanding 18,625,252 and 1,750,001, respectively	2,104	417
Additional paid-in capital	57,516,327	23,990
Retained Earnings (Deficit accumulated) during the development stage	5,867,020	(24,783)
<b>Total stockholders equity (deficit)</b>	<b>63,385,451</b>	<b>(376)</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 98,357,051</b>	<b>\$ 178,678</b>

See accompanying notes to financial statements.



**Table of Contents****HAPC, INC.****(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)**

(a corporation in the development stage)

**STATEMENTS OF OPERATIONS**

(Unaudited)

	Three Months Ended June 30, 2006 (Restated)	Six Months Ended June 30, 2006 (Restated)	For the period from August 15, 2005 (inception) to June 30, 2006 (Restated)
Revenues	\$	\$	\$
General and Administrative expenses	\$ 2,362,781	\$ 4,559,970	\$ 4,584,453
<b>Loss from operations</b>	<b>(2,362,781)</b>	<b>(4,559,970)</b>	<b>(4,584,453)</b>
Other Income (Expenses):			
Interest income	857,032	857,032	857,032
Interest expense	(223)	(1,011)	(1,311)
Gain on warrant liabilities	9,787,645	9,787,645	9,787,645
	10,644,454	10,643,666	10,643,366
<b>Income before provision for income taxes</b>	<b>8,281,673</b>	<b>6,083,696</b>	<b>6,058,913</b>
Provisions for income taxes	191,149	191,893	191,893
<b>Net income</b>	<b>\$ 8,090,524</b>	<b>\$ 5,891,803</b>	<b>\$ 5,867,020</b>
Net income per share	\$ .53	\$ .68	\$ .93
Weighted average shares outstanding			
- basic	15,403,969	8,614,703	6,284,410

See accompanying notes to financial statements.

**Table of Contents**

**HAPC, INC.**

**(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)**

(a corporation in the development stage)

**STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)**

For the period August 15, 2005 (inception) to December 31, 2005 (Audited)

and the period January 1, 2006 to June 30, 2006 (Unaudited)

	Common Stock		Paid-in	Retained Earnings (Deficit) Accumulated During the Development Stage	Treasury Stock		Total Stockholders Equity
	Shares	Par Value \$0.0001 Amount	Capital in Excess of Par		Shares	Amount	
Common stock issued September 13, 2005	4,166,667	\$ 417	24,583	\$			\$ 25,000
Treasury stock purchased					(4,166,667)	(25,000)	(25,000)
Issuance of treasury shares for services			(250,000)		1,750,001	25,000	
Amortization of stock based compensation expense							24,407
Net loss				(24,783)			(24,783)



**Table of Contents**

<b>Balances at December 31, 2005</b>	<b>4,166,667</b>	<b>417</b>	<b>23,990</b>	<b>(24,783)</b>	<b>(2,416,666)</b>	<b>(376)</b>
Issuance of common stock and warrants	16,875,251	1,687	101,249,819			101,251,506
Reclassification of proceeds allocated To warrants-derivatives liabilities			(19,912,796)			(19,912,796)
Expenses of offering			(10,827,020)			(10,827,020)
Non-cash charge related to sale of Underwriters purchase option			1,966,666			1,966,666
Amortization of stock based compensation expense			4,381,517			4,381,517
Proceeds subject to possible conversion of 3,373,363 shares			(19,365,849)			(19,365,849)
Net income				5,891,803		5,891,803
<b>Balances at June 30, 2006 (Restated)</b>	<b>21,041,918</b>	<b>\$ 2,104</b>	<b>\$ 57,516,327</b>	<b>\$ 5,867,020</b>	<b>(2,416,666)</b>	<b>\$ 63,385,451</b>

See accompanying notes to financial statements.

**Table of Contents****HAPC, INC.****(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)**

(a corporation in the development stage)

**STATEMENTS OF CASH FLOWS**

(Unaudited)

	<b>Six Months Ended June 30, 2006 (Restated)</b>	<b>For the period from August 15, 2005 (inception) to June 30, 2006 (Restated)</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 5,891,803	\$ 5,867,020
<b>Adjustment to reconcile net income to net cash used in operating activities:</b>		
Gain on warrant liabilities	(9,787,645)	(9,787,645)
Interest income on investments held in trust	(854,039)	(854,039)
Withdrawal from investments held in trust	191,149	191,149
Amortization of stock based compensation	4,381,517	4,405,924
<b>Changes in Assets and Liabilities:</b>		
Increase in prepaid expenses and taxes	(673,249)	(673,249)
Decrease in other deferred offering costs	165,088	
Increase (decreases) in accrued expenses	(81,454)	12,500
Increase in income taxes payable	191,149	191,149
<b>Net cash used in operating activities</b>	<b>(575,681)</b>	<b>(647,191)</b>
<b>Cash flows from investing activities:</b>		
Purchase of investments held in trust	(96,214,793)	(96,214,793)
Net cash used in operating activities	<b>(96,214,793)</b>	<b>(96,214,793)</b>
<b>Cash flows from financing activities:</b>		
Advance from initial stockholder		100
Proceeds from note payable		60,000
Payment of notes payable	(85,000)	(85,000)
Payment of deferred offering costs	(3,392,354)	(3,392,354)
Proceeds from public offering	81,885,657	81,910,657
Proceeds from issuance of shares of stock subject to possible conversion	19,365,849	19,365,849
<b>Net cash provided by financing activities</b>	<b>97,774,152</b>	<b>97,859,252</b>
<b>Net change in cash</b>	<b>983,678</b>	<b>997,268</b>
<b>Cash, beginning of period</b>	<b>13,590</b>	
<b>Cash, end of period</b>	<b>\$ 997,268</b>	<b>\$ 997,268</b>

**Supplemental Disclosures of Cash Flow Information:**

**Schedule of Non-Cash Financing**

**Table of Contents**

**Transactions**

Option issued to underwriter	1,966,666	1,966,666
Deferred underwriting fees	5,468,000	5,468,000
Issuance of note payable for treasury		
Stock		25,000
Warrant obligation in connection with sale of units in offering	\$ 19,912,796	\$ 19,912,796

See accompanying notes to financial statements.

---

**Table of Contents**

**HAPC, INC.**

**(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)**

(a corporation in the development stage)

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**1. Basis of Presentation**

The financial statements for the six months ended June 30, 2006 are unaudited. In the opinion of management, all adjustments (consisting only of normal recurring accruals) have been made that are necessary to present fairly the financial position of HAPC, Inc. (formerly Healthcare Acquisition Partners Corp.) (the Company) as of June 30, 2006 and the results of its operations and its cash flows for the six months ended June 30, 2006 and period from August 15, 2005 (inception) to June 30, 2006 in conformity with generally accepted accounting principles. Operating results for the interim period are not necessarily indicative of the results to be expected for the full year.

**2. Nature of Operations and Summary of Significant Accounting Policies**

The Company was incorporated in Delaware on August 15, 2005 as a blank check company whose objective is to acquire through a merger, capital stock exchange, asset acquisition or other similar business combination, one or more operating businesses primarily in the healthcare sector.

Practically all activity through June 30, 2006 relates to the Company's formation and the initial public offering described below. The Company has selected December 31 as its fiscal year end. The registration statement for the Company's initial public offering (the Public Offering) was declared effective on April 11, 2006. The Company consummated the Public Offering on April 18, 2006 and received gross proceeds of \$100,000,002. Legal fees totaling \$497,000 and underwriting costs totaling \$2,600,000 have been paid from these proceeds. The Company's management has broad discretion with respect to the specific application of the net proceeds of the Public Offering (as described in Note 3), although substantially all of the net proceeds of the Public Offering are intended to be applied toward consummating a business combination with one or more operating businesses whose fair value is, either individually or collectively, at least 80% of the Company's net assets at the time of such acquisition (Business Combination).

In evaluating a prospective target business, the Company will consider, among other factors, its financial condition and results of operations; growth potential; experience and skill of management; availability of additional personnel; capital requirements; competitive position; barriers to entry into other industries; stage of development of products, processes or services; degree of current or potential market acceptance of the products, processes or services; proprietary features and degree of intellectual property or other protection of the products, processes or services; the regulatory environment of the industry; and costs associated with effecting the Business Combination. These criteria are not intended to be exhaustive. Any evaluation relating to the merits of a particular Business Combination will be based, to the extent relevant, on the above factors, as well as other considerations deemed relevant by the Company in effecting a Business Combination consistent with its business objective.

There are no assurances the Company will be able to successfully effect a Business Combination.

Of the proceeds of the Public Offering, \$96,877,683 including interest, net of tax payments, is being held in a trust account (Trust Account) and invested in a money market fund, fully collateralized by U.S. government securities until the earlier of (i) the consummation of the first Business Combination or (ii) the distribution of the Trust Account as described below. The amount in the Trust Account includes \$5,468,000 of contingent underwriting compensation (the Discount) which will be paid to the

---

**Table of Contents**

**HAPC, INC.**

**(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)**

(a corporation in the development stage)

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**2. Nature of Operations and Summary of Significant Accounting Policies (Continued)**

underwriters if a Business Combination is consummated, but which will be forfeited in part if public stockholders elect to have their shares redeemed for cash if a Business Combination is not consummated. The remaining amount of the proceeds may be used to pay business, legal accounting, due diligence on prospective acquisitions and continuing general and administrative expenses.

The Company, after signing a definitive agreement for the acquisition of a target business, will submit such transaction for stockholder approval. In the event that stockholders owning 20% or more of the shares sold in the Public Offering vote against the Business Combination and exercise their conversion rights described below, the Business Combination will not be consummated. The Company's stockholders prior to the Public Offering (the Initial Stockholders) have agreed to vote their 1,750,001 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. The Initial Stockholders have agreed not to acquire any additional shares of the registrant in connection with or following the Public Offering. After consummation of a Business Combination, these voting safeguards will no longer be applicable.

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 within 18 months from the date of the consummation of the Public Offering, or 24 months from the consummation of the Public Offering if certain extension criteria have been satisfied. 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 Public Offering (assuming no value is attributed to the Warrants contained in the Units to be offered in the Public Offering discussed in Note 3).

**Cash and cash equivalents**

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

**Accounting for Warrants and Derivative Instruments**

On April 18, 2006, the Company consummated its initial public offering of 16,666,667 units. On May 18, 2006, the Company sold 208,584 Units (the Overallotment Units) to FTN Midwest Securities Corp., the lead underwriter in the Company's initial public offering, pursuant to a partial exercise by FTN Midwest Securities Corp. of its overallotment option. The Overallotment Units were sold at the offering price of \$6.00 per Unit, minus FTN Midwest Securities Corp.'s 7% underwriting discount. Each unit consists of one share of common stock and two redeemable common stock purchase warrants. Each warrant entitles the holder to purchase from the Company one share of its common stock at an exercise price of \$5.00.

**Table of Contents**

**HAPC, INC.**

**(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)**

(a corporation in the development stage)

**NOTES TO FINANCIAL STATEMENTS**

**2. Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Accounting for Warrants and Derivative Instruments (Continued)**

In September 2000, the Emerging Issues Task Force issued EITF 00-19, Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in, a Company's Own Stock, ( EITF 00-19 ) which requires freestanding contracts that are settled in a company's own stock, including common stock warrants, to be designated as equity instrument, asset or a liability. Under the provisions of EITF 00-19, a contract designated as an asset or a liability must be carried at fair value on a company's balance sheet, with any changes in fair value recorded in the company's results of operations. A contract designated as an equity instrument must be included within equity, and no fair value adjustments are required from period to period. In accordance with EITF 00-19, the 33,750,502 warrants issued to purchase stock are separately accounted for as liabilities. The fair value of these warrants is shown on the Company's balance sheet and the unrealized changes in the values of these warrants are shown in the Company's statement of operations as Gain (loss) on warrant liabilities. These warrants are freely traded on the Over The Counter Bulletin Board. Consequently, the fair value of these warrants are estimated as the market price of the warrant at each period end. To the extent the market price increases or decreases, the Company's warrant liabilities will also increase or decrease, including the effect on the Company's statement of operations.

**Income taxes**

The Company uses the liability method for reporting income taxes, under which current and deferred tax liabilities and assets are recorded in accordance with enacted tax laws and rates. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Under the liability method, the amounts of deferred tax liabilities and assets at the end of each period are determined using the tax rate expected to be in effect when taxes are actually paid or recovered. Future tax benefits are recognized when it is more likely than not that such benefits will be realized.

**Recently issued accounting pronouncements**

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

**Loss per common share**

Loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period.

---

**Table of Contents**

**HAPC, INC.**

**(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)**

(a corporation in the development stage)

**NOTES TO FINANCIAL STATEMENTS**

**2. Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Accounting for Warrants and Derivative Instruments (Continued)**

**Stock based compensation**

The Company applied APB No. 25 (Accounting for Stock Issued to Employees) and related Interpretations in accounting for stock based compensation. Accordingly, compensation for shares issued to officers and directors is measured using their intrinsic value at the date of opportunity to acquire such shares and recognized as compensation expense ratably over the vesting period. Effective January 1, 2006, the Company will be applying the provisions of SFAS No. 123(R).

**Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

**Cash concentration of credit risk**

The Company maintains cash balances with financial institutions, which, at times, may exceed the Federal Deposit Insurance Corporation limit. The Company has not experienced any losses to date as a result of this policy, and management believes there is little risk of loss.

**3. Initial Public Offering**

On April 18, 2006, the Company sold 16,666,667 units ( Units ) to the public at a price of \$6.00 per unit. Each Unit consists of one share of the Company's common stock, \$.0001 par value, and two Redeemable Common Stock Purchase Warrants ( Warrants ). Each Warrant will entitle the holder to purchase from the Company one share of common stock at an exercise price of \$5.00 commencing on the later of the completion of a Business Combination or one year from the effective date of the Offering and expiring five years from the effective date of the Offering. The Company may call the Warrants for redemption in whole and not in part at a price of \$.01 per Warrant at any time after the Warrants become exercisable. They cannot be redeemed unless the Warrant holders receive written notice not less than 30 days prior to the redemption; and, if, and only if, the reported last sale price of the common stock equals or exceeds \$8.50 per share for any 20 trading days within a 30 trading day period ending on the third business day prior to the notice of redemption to Warrant holders. In connection with the Public Offering, the Company paid to FTN Midwest Securities Corp. an underwriting discount of 7% of the public offering price and a non-accountable expense allowance of 1% of the public offering price.

In addition, on April 18, 2006, the Company issued to FTN Midwest Securities Corp., for \$100, an option to purchase up to a total of 833,333 units. The units issuable upon exercise of this option are identical to those offered in the Public Offering, except that each of the warrants underlying this option entitles the holder to purchase one share of our common stock at a price of \$6.25. This option is exercisable at \$7.50 per unit commencing on the later of the consummation of a Business Combination and one year from the



---

**Table of Contents**

**HAPC, INC.**

**(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)**

(a corporation in the development stage)

**NOTES TO FINANCIAL STATEMENTS**

**3. Initial Public Offering (Continued)**

date of the prospectus and expiring five years from the date of the prospectus. The option may only be exercised or converted by the option holder.

The warrants issuable upon exercise of the option will be exercisable only if at the time of exercise (i) a registration statement under the Securities Act of 1933, as amended (the Securities Act), with respect to the common stock underlying the warrants issuable upon exercise of the option is effective, or (ii) in the opinion of counsel to the Company or counsel to the option holder reasonably satisfactory to the Company, the exercise of the warrants is exempt from the registration requirements of the Securities Act and such securities are qualified for sale or exempt from qualification under applicable securities laws of the states or other jurisdictions in which the registered holders reside. The warrants may not be exercised by, or securities issued to, any registered holder in any state in which such exercise or issuance would be unlawful. The option holder is not entitled to receive a net cash settlement or other settlement in lieu of physical settlement if the common stock underlying the warrants, or securities underlying the option, as applicable, are not covered by an effective registration statement.

The sale of the option was accounted for as an equity transaction. Accordingly, there was no net impact on the Company's financial position or results of operations, except for the recording of the \$100 proceeds from the sale. The Company determined that the fair value of the option on the date of sale was \$2.36 per unit, or \$1,966,666 total, using an expected life of five years, volatility of 47% and a risk-free interest rate of 3.98%. Accordingly, this amount was recorded as an expense of the offering resulting in a charge directly to stockholders' equity.

The volatility calculation of 47% is based on the 180 day average volatility of a representative sample of forty-one (41) healthcare industry companies (the Sample Companies) with market capitalization under \$200 million. Because it does not have a trading history, the Company needed to estimate the potential volatility of its common stock price. The volatility will depend on a number of factors, which cannot be ascertained at this time. The Company referred to the 180 day average volatility of the Sample Companies because Management believes that the average volatility of such companies is a reasonable benchmark to use in estimating the expected volatility of the Company's common stock post-business combination. Although an expected life of five years was taken into account for purposes of assigning a fair value to the options, if the Company does not consummate a business combination within the prescribed time period and liquidates, the options would become worthless.

On May 18, 2006, the Company sold 208,584 Units (the Overallotment Units) to FTN Midwest Securities Corp. pursuant to a partial exercise by FTN Midwest Securities Corp. of its overallotment option. The Overallotment Units were sold at the offering price of \$6.00 per Unit, minus FTN Midwest Securities Corp.'s 7% underwriting discount.

**Table of Contents**

**HAPC, INC.**

**(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)**

(a corporation in the development stage)

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**4. Restatement And Reclassification Of Previously Issued Financial Statements**

In February 2007, the Company concluded that it was necessary to restate its annual financial statements for the interim periods ended April 18, 2006, June 30, 2006 and September 30, 2006 to reflect gains and losses related to the classification of and accounting for the warrants to purchase common stock associated with the units sold at the initial public offering of the Company, including the overallotment shares issued on May 18, 2006. The Company had previously classified the value of these warrants to purchase common stock, when applicable, as equity. After further review in connection with the presentation of the Company's Preliminary Proxy Statement related to the acquisition contemplated by the Stock Purchase Agreement dated September 29, 2006 by and among the Company, I-Flow Corporation, a Delaware corporation ( "I-Flow" ), and InfuSystem Inc., a California corporation and wholly-owned subsidiary of I-Flow ( "InfuSystem" ), the Company has determined that these instruments should have been classified as liabilities and, therefore, the fair value of each instrument must be recorded as a liability on the Company's balance sheet. Changes in the fair values of these instruments will result in adjustments to the amount of the recorded liabilities, and the corresponding gain or loss will be recorded in the Company's statement of operations.

The fair market value of the Company's 33,750,502 warrants outstanding at June 30, 2006 was \$10,125,151 or \$.30 per warrant.

The accompanying financial statements for the six months ended June 30, 2006 have been restated to effect the changes described in Note 2. The impact of the adjustments related to the classification of and accounting for the warrants for the period from inception to June 30, 2006 and for the three and six months ended June 30, 2006 is summarized below.

Table of Contents**HAPC, INC.****(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)**

(a corporation in the development stage)

**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2006****4. Restatement And Reclassification Of Previously Issued Financial Statements (Continued)****Statement of Operations**

	<b>For the period from August 15, 2005 (date of inception) through June 30, 2006</b>		
	<b>As</b>		
	<b>Previously Reported</b>	<b>Adjustments</b>	<b>As Restated</b>
General and Administrative expenses	\$ (4,584,453)	\$	\$ (4,584,453)
Interest income	857,032		857,032
Interest expense	(1,311)		(1,311)
Gain on warrant liabilities		9,787,645	9,787,645
Income (loss) before provision for taxes	(3,728,732)	9,787,645	6,058,913
Provision for income taxes	191,893		191,893
<b>Net income (loss)</b>	<b>\$ (3,920,625)</b>	<b>\$ 9,787,645</b>	<b>\$ 5,867,020</b>
Weighted average shares outstanding			
- basic	6,284,410	6,284,410	6,284,410
Net income (loss) per share			
- basic	\$ (0.62)	\$ 1.55	\$ 0.93

As a result of recording the change in the fair value of warrant liability, the Company has reported net income for the period ended June 30, 2006 compared to a net loss as previously reported. Such net income is solely attributable to the gain resulting from the change in the fair value of the warrant liability during the period. If the per share effect of potential common shares issued upon exercise of the warrants, aggregating 33,750,502, were included in diluted loss per share, the effect would be anti-dilutive. Accordingly, such per share effect has not been included.

	<b>For the three months ended June 30, 2006</b>		
	<b>As Previously Reported</b>		
	<b>As Previously Reported</b>	<b>Adjustments</b>	<b>As Restated</b>
General and Administrative expenses	\$ (2,362,781)	\$	\$ (2,362,781)
Interest income	857,032		857,032
Interest expense	(223)		(223)
Gain on warrant liabilities		9,787,645	9,787,645
Income (loss) before provision for taxes	(1,505,972)	9,787,645	8,281,673
Provision for income taxes	191,149		191,149

Edgar Filing: HAPC, Inc. - Form 10-Q/A

Net income (loss)	\$ (1,697,121)	\$ 9,787,645	\$ 8,090,524
Weighted average shares outstanding			
- basic	15,403,969	15,403,969	15,403,969
Net income (loss) per share			
- basic	\$ (0.11)	\$ 0.64	\$ 0.53

**Table of Contents****HAPC, INC.****(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)**

(a corporation in the development stage)

**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2006****4. Restatement And Reclassification Of Previously Issued Financial Statements (Continued)**

As a result of recording the change in the fair value of warrant liability, the Company has reported net income for the period ended June 30, 2006 compared to a net loss as previously reported. Such net income is solely attributable to the gain resulting from the change in the fair value of the warrant liability during the period. If the per share effect of potential common shares issued upon exercise of the warrants, aggregating 33,750,502, were included in diluted loss per share, the effect would be anti-dilutive. Accordingly, such per share effect has not been included.

	<b>For the six months ended June 30, 2006</b>		
	<b>As</b>		
	<b>Previously Reported</b>	<b>Adjustments</b>	<b>As Restated</b>
General and Administrative expenses	\$ (4,559,970)	\$	\$ (4,559,970)
Interest income	857,032		857,032
Interest expense	(1,011)		(1,011)
Gain on warrant liabilities		9,787,645	9,787,645
Income (loss) before provision for taxes	(3,703,949)	9,787,645	6,083,696
Provision for income taxes	191,893		191,893
Net income (loss)	<b>\$ (3,895,842)</b>	<b>\$ 9,787,645</b>	<b>\$ 5,891,803</b>
Weighted average shares outstanding			
- basic	8,614,703	8,614,703	08,614,703
Net income (loss) per share			
- basic	\$ (0.45)	\$ 1.14	\$ 0.68

**Table of Contents****HAPC, INC.****(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)**

(a corporation in the development stage)

**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2006****4. Restatement And Reclassification Of Previously Issued Financial Statements (Continued)**

The following table sets forth the effects for the restatement adjustment on the Company's balance sheet as of June 30, 2006:

	June 30, 2006		June 30, 2006
	As Previously Reported	Adjustments	As Restated
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 997,268	\$	\$ 997,268
Cash held in trust account	96,877,683		96,877,683
Prepaid expenses	482,100		482,100
<b>Total assets</b>	<b>\$ 98,357,051</b>		<b>\$ 98,357,051</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>			
<b>Current Liabilities:</b>			
Accrued expenses	\$ 12,500	\$	\$ 12,500
Stockholder advance	100		100
Deferred underwriting fees	5,468,000		5,468,000
Warrant liabilities		10,125,151	10,125,151
<b>Total Liabilities</b>	<b>6,105,908</b>	<b>10,125,151</b>	<b>15,605,751</b>
<b>COMMITMENTS</b>			
Common Stock subject to conversion 3,373,363 and 0 shares, respectively, at conversion value	18,990,500		18,990,500
<b>Stockholders' Equity (Deficit)</b>			
Preferred stock, \$.0001 par value; authorized 1,000,000 shares; none issued and outstanding			
Common stock, \$.0001 par value; authorized 200,000,000 shares; issued 21,041,918 and 4,166,667, respectively and outstanding 18,625,252 and 1,750,001, respectively	2,104		2,104
Additional paid-in capital	77,429,123	(19,912,796)	57,254,327
Retained Earnings (Deficit accumulated) during the development stage	(3,920,625)	9,787,645	5,867,020
<b>Total stockholders' equity (deficit)</b>	<b>73,510,602</b>	<b>(10,125,151)</b>	<b>63,385,541</b>

<b>Total liabilities and stockholders equity</b>	<b>\$ 98,357,051</b>	<b>\$</b>	<b>\$ 98,357,051</b>
--	----------------------	-----------	----------------------

**Table of Contents**

The following table sets forth the effects for the restatement of the Company's statement of stockholders' equity (deficit) for the nine month period ended June 30, 2006:

	Common Stock		Paid-in Capital in Excess of Par	Deficit Accumulated During the Development Stage	Treasury Stock		Total Stockholders Equity
	Shares	Par Value \$0.0001 Amount			Shares	Amount	
Balance at June 30, 2006							
(as previously reported)	21,041,918	\$ 2,104	\$ 77,429,123	\$ (3,920,625)	(2,416,666)	\$	\$ 73,510,602
Restatement adjustments			(19,912,796)	9,787,645			(10,125,151)
Balances at June 30, 2006							
(as restated)	<b>21,041,918</b>	<b>\$ 2,104</b>	<b>\$ 57,516,327</b>	<b>\$ 5,867,020</b>	<b>(2,416,666)</b>	<b>\$</b>	<b>\$ 63,385,451</b>



**Table of Contents**

The following table sets forth the effects for the restatement of the Company's statements of cash flows for the six month period ended June 30, 2006 and for the period from August 15, 2005 (inception) to June 30, 2006:

	Six Months Ended June 30, 2006  (As Previously Reported)	Six Months Ended June 30, 2006 Adjustments	Six Months Ended June 30, 2006  (As Restated)
<b>Cash flows from operating activities:</b>			
Net (loss) income	\$ (3,895,842)	\$ 9,787,645	\$ 5,891,803
<b>Adjustment to reconcile net income to net cash used in operating activities:</b>			
Gain on warrant liabilities		(9,787,645)	(9,787,645)
<b>Changes in Assets and Liabilities:</b>			
Interest income on investments held in trust	(854,039)		(854,039)
Withdrawal from investments held in trust	191,149		191,149
Amortization of stock based compensation	4,381,517		4,381,517
Increase in prepaid expenses and taxes	(673,249)		(673,249)
Decrease in other deferred offering costs	165,088		165,088
Increase (decreases) in accrued expenses	(81,454)		(81,454)
Increase in income taxes payable	191,149		191,149
<b>Net cash used in operating activities</b>	<b>(575,681)</b>		<b>(575,681)</b>
<b>Cash flows from investing activities:</b>			
Purchase of investments held in trust	(96,214,793)		(96,214,793)
Net cash used in operating activities	<b>(96,214,793)</b>		<b>(96,214,793)</b>
<b>Cash flows from financing activities:</b>			
Advance from initial stockholder			
Proceeds from note payable			
Payment of notes payable	(85,000)		(85,000)
Payment of deferred offering costs	(3,392,354)		(3,392,354)
Proceeds from public offering	81,885,657		81,885,657
Proceeds from issuance of shares of stock subject to possible conversion	19,365,849		19,365,849
<b>Net cash provided by financing activities</b>	<b>97,774,152</b>		<b>97,774,152</b>
<b>Net change in cash</b>	<b>983,678</b>		<b>983,678</b>
<b>Cash, beginning of period</b>	<b>13,590</b>		<b>13,590</b>
<b>Cash, end of period</b>	<b>\$ 997,268</b>	<b>\$</b>	<b>\$ 997,268</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>			
<b>Schedule of Non-Cash Financing Transactions</b>			
Option issued to underwriter	1,966,666	1,966,666	1,966,666
Deferred underwriting fees	5,468,000	5,468,000	5,468,000
Issuance of note payable for treasury Stock			25,000
Warrant obligation in connection with sale of units in offering	\$	\$ 19,912,796	\$ 19,912,796



**Table of Contents**

	For the period from August 15, 2005 (inception)  to June 30, 2006  As Previously Reported	For the period from August 15, 2005 (inception)  to June 30, 2006  Adjustments	For the period from August 15, 2005 (inception)  to June 30, 2006  As Restated
<b>Cash flows from operating activities:</b>			
Net income	\$ (3,920,625)	\$ 9,787,645	\$ 5,867,020
<b>Adjustment to reconcile net income to net cash used in operating activities:</b>			
Gain on warrant liabilities		(9,787,645)	(9,787,645)
<b>Changes in Assets and Liabilities:</b>			
Interest income on investments held in trust	(854,039)		(854,039)
Withdrawal from investments held in trust	191,149		191,149
Amortization of stock based compensation	4,405,924		4,405,924
Increase in prepaid expenses and taxes	(673,249)		(673,249)
Increase (decreases) in accrued expenses	12,500		12,500
Increase in income taxes payable	191,149		191,149
<b>Net cash used in operating activities</b>	<b>(647,191)</b>		<b>(647,191)</b>
<b>Cash flows from investing activities:</b>			
Purchase of investments held in trust	(96,214,793)		(96,214,793)
<b>Net cash used in operating activities</b>	<b>(96,214,793)</b>		<b>(96,214,793)</b>
<b>Cash flows from financing activities:</b>			
Advance from initial stockholder	100		100
Proceeds from note payable	60,000		60,000
Payment of notes payable	(85,000)		(85,000)
Payment of deferred offering costs	(3,392,354)		(3,392,354)
Proceeds from public offering	81,910,657		81,910,657
Proceeds from issuance of shares of stock subject to possible conversion	19,365,849		19,365,849
<b>Net cash provided by financing activities</b>	<b>97,859,252</b>		<b>97,859,252</b>
<b>Net change in cash</b>	<b>997,268</b>		<b>997,268</b>
<b>Cash, beginning of period</b>			
<b>Cash, end of period</b>	<b>\$ 997,268</b>	<b>\$</b>	<b>\$ 997,268</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>			
<b>Schedule of Non-Cash Financing Transactions</b>			
Option issued to underwriter	1,966,666		1,966,666
Deferred underwriting fees	5,468,000		5,468,000
Issuance of note payable for treasury Stock	25,000		25,000
Warrant obligation in connection with sale of units in offering	\$	\$ 19,912,796	\$ 19,912,796

**Table of Contents**

**HAPC, INC.**

**(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)**

(a corporation in the development stage)

**NOTES TO FINANCIAL STATEMENTS**

**5. Investments Held in Trust**

Investments held in trust at June 30, 2006, consist of a United States Treasury money market account with a fair market value of \$96,877,683. There were no investments held in trust as of December 31, 2005.

**6. Notes Payable**

The Company issued a \$60,000 unsecured promissory note to Healthcare Acquisition Holdings, LLC ( Holdings ), a Company owned by certain directors of the Company. The note bears interest at a rate of 3% per annum and is payable on the earlier of September 28, 2006 or the date the Company consummates the Public Offering. Due to the short-term nature of the note, the fair value of the note approximates its carrying amount.

On December 30, 2005, the Company issued an unsecured \$25,000 note, on similar terms to the \$60,000 note payable, to Holdings to acquire the 4,166,667 common shares that Holdings received upon formation of the Company.

Both notes were re-paid in full in May 2006 and are no longer outstanding.

**7. Commitments**

The Company's chief executive officer receives annual compensation of \$50,000 for serving as an officer and \$50,000 for serving as a director. The Company's chief financial officer receives annual compensation of \$50,000 and the Company's independent directors each receive annual compensation of \$50,000.

The Company has entered into agreements with FTN Midwest Securities Corp. and certain officers and directors whereby each of them has agreed to present the Company, for its consideration, with any opportunity to acquire all or substantially all of the outstanding equity securities of, or otherwise acquire a controlling equity interest in, an operating business in the healthcare, or a healthcare-related, sector, provided that they are under no obligation to present the Company with any opportunity involving a business in the healthcare, or a healthcare-related, sector seeking a strategic combination with another operating business in the healthcare, or a healthcare-related, sector.

The Company currently utilizes and will continue to utilize certain administrative, technological and secretarial services, as well as certain limited office space provided by FTN Midwest Securities Corp. until the consummation of a Business Combination by the Company. The Company has agreed to pay \$1 per year for such services commencing on the effective date of the Public Offering and continuing monthly thereafter.

Our initial stockholders are entitled to demand that we register the resale of their shares of common stock at any time six months following the consummation of the acquisition, pursuant to the terms of their respective lock-up agreements.

**Table of Contents****HAPC, INC.****(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)**

(a corporation in the development stage)

**NOTES TO FINANCIAL STATEMENTS****7. Commitments (Continued)**

The Company has agreed to reimburse our initial stockholders for (a) any income tax liability incurred by our initial stockholders as a result of the award of their shares and/or the vesting of such shares (other than tax liability due as a result of their sale of such shares) and (b) all reasonable out-of-pocket expenses incurred by the initial stockholders in connection with their activities on the Company's behalf.

**8. Common and Preferred Stock**

Effective December 30, 2005, Holdings sold the 4,166,667 common shares that it had received upon formation of the Company back to the Company. The shares were purchased for a \$25,000 note payable. Simultaneously, the Company transferred 1,750,001 of these common shares to certain members of its management team resulting in compensation of \$8,435,005 to them, computed at \$4.82 per share. Of this amount, \$24,407 and \$4,381,517 was charged to expense for the periods ended December 31, 2005 and June 30, 2006, respectively. The Company will recognize the remaining \$6,213,982 of compensation as an expense ratably over the forfeiture period of the shares. Each individual receiving shares has agreed to forfeit a portion of their shares if they cease to be an officer or director prior to the following dates (other than as a result of (i) disability, (ii) death, (iii) removal by the Company without cause, or (iv) resignation for Good Reason, the portion of the shares to be forfeited is as follows:

<b>Termination of Services Prior To:</b>	<b>Shares Forfeited</b>
June 30, 2006	100%
December 31, 2006	75%
June 30, 2007	50%
December 31, 2007	25%

The 2,416,666 shares of our common stock transferred back to us and not transferred to members of the Company's management team on December 30, 2005 are being held as treasury shares and reserved for transfer by the Company's board of directors to present or future officers, directors or employees.

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.

**Table of Contents**

**HAPC, INC.**

**(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)**

(a corporation in the development stage)

**NOTES TO FINANCIAL STATEMENTS**

**9. Subsequent Events**

On July 24, 2006, the Company reserved for grant to two of its Directors 2,416,666 shares of its common stock. These shares were originally held as treasury shares and reserved for transfer to present or future officers, directors or employees.

The grants may not be transferred prior to the date that is the later of six months after the completion of a business combination or April 11, 2007 (being the first anniversary of the Company's initial Public Offering).

As a result of the above, the Company will take a charge of \$13,049,996 in its quarter ended September 30, 2006 which is based upon the number of shares reserved (2,416,666) at the July 24, 2006 closing stock price of \$5.40 per share.

---

## **Table of Contents**

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

#### **Forward-Looking Statements**

This Amendment No. 2 to Quarterly Report on Form 10-Q/A 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*, *estimate*, *continue*, or 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. The following discussion should be read in conjunction with our Financial Statements and related Notes thereto included elsewhere in this report and the Audited Financials included in our other Securities and Exchange Commission Filings.

Management's Discussion and Analysis of Financial Condition and Results of Operations has been revised for the effects of the restatement in Note 4.

#### **Critical Accounting Policies**

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. Management believes the following critical accounting policies, among others, involve its more significant judgments and estimates used in the preparation of the financial statements.

##### *Share-Based Payment*

Management uses certain assumptions relating to determining the value of share-based payments based on fair value. These can include, as appropriate, relevant modeling techniques such as the Black-Scholes model and analyses of the valuation of various derivative securities of other comparable publicly traded companies.

##### *Valuation of Warrants*

Fair values for traded securities and derivatives are based on quoted market prices. Where market prices are not readily available, as in the case of the Company's warrants as of the date of issuance, fair values are determined using methods requiring judgment and estimates. Before the warrants were publicly traded, the Company allocated the unit price between the share of common and the warrants issued based upon relative fair value determined, among other things, by reference to comparative companies. The warrants included in the units sold in the Company's initial public offering began to be publicly traded on the Over the Counter Bulletin Board on June 15, 2006, and consequently the market value of the warrants is reflected as the fair value of the warrants at each period end. To the extent that the market prices of the Company's warrants increase or decrease, the Company's derivative liabilities will also increase or decrease with a corresponding impact on its statement of operations.

#### **Overview**

We were organized as a Delaware corporation on August 15, 2005, to serve as a vehicle to acquire, through a merger, capital stock exchange, asset acquisition or other similar business combination, one or more operating businesses primarily in the healthcare sector. Our initial business combination must be with a target business or businesses whose fair market value is at least equal to 80% of net assets at the time of such acquisition. 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.

#### **Results of Operations for the Quarter Ending June 30, 2006**

During the quarter ended June 30, 2006, we completed our Public Offering. Additional formation and operating costs of \$2,362,781 were offset by interest income totaling \$857,032, earned on proceeds from the Public Offering, and a non-cash gain of \$9,787,645 on warrant liabilities, resulting in a net income for the six and three months ending June 30, 2006 of \$5,891,803 and \$8,090,524, respectively.





---

**Table of Contents**

**Liquidity and Capital Resources**

On April 18, 2006, we consummated our Public Offering of 16,666,667 units sold to the public at a price of \$6.00 per unit. Each Unit consists of one share of the Company's common stock, \$.0001 par value, and two Redeemable Common Stock Purchase Warrants ( Warrants ). Each Warrant will entitle the holder to purchase from the Company one share of common stock at an exercise price of \$5.00 commencing on the later of the completion of a Business Combination or one year from the effective date of the Offering and expiring five years from the effective date of the Offering. The Company may call the Warrants for redemption in whole, but not in part, at a price of \$.01 per Warrant at any time after the Warrants become exercisable. They cannot be redeemed unless the Warrant holders receive written notice not less than 30 days prior to the redemption; and if, and only if, the reported last sale price of the common stock equals or exceeds \$8.50 per share for any 20 trading days within a 30 trading day period ending on the third business day prior to the notice of redemption to Warrant holders.

On May 18, 2006, we sold an additional 208,584 units (the Overallotment ) pursuant to a partial exercise by FTN Midwest Securities Corp. of its overallotment option. Net proceeds (including the Overallotment) after underwriting, legal, accounting, and printing costs amounted to approximately \$97,859,000 which includes a contingent underwriting fee of \$5,468,000. \$96,877,683 is being held in a Trust account. We will use substantially all of the net proceeds of the Public 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.

Commencing on April 18, 2005 and ending upon the acquisition of a target business, we will incur a fee of \$1 per year for office space and certain other additional general and administrative services from FTN Midwest Securities Inc.

We granted a purchase option to the representative of the underwriter at the closing of the Public Offering on April 18, 2006 to acquire 833,333 units for \$100. The units issuable upon exercise of this option are identical to those offered in the Public Offering, except that each of the warrants underlying this option entitles the holder to purchase one share of our common stock at a price of \$6.25. This option is exercisable at \$7.50 per unit commencing on the later of the consummation of a Business Combination and one year from the date of the prospectus and expiring five years from the date of the prospectus. The option may only be exercised or converted by the option holder.

The sale of the option was accounted for as an equity transaction. Accordingly, there was no net impact on the Company's financial position or results of operations, except for the recording of the \$100 proceeds from the sale. The Company has determined that the fair value of the option on the date of sale was \$2.36 per unit, or approximately \$1,966,666 total, using an expected life of five years, volatility of 47% and a risk-free interest rate of 3.98%. Accordingly, this amount was recorded as an expense of the offering resulting in a charge directly to the stockholders equity.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

**Item 4. Controls and Procedures.**

**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure material information required to be disclosed in our reports that we file or submit under the Securities Exchange Act of 1934,

## **Table of Contents**

as amended, or the Exchange Act, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, with a company have been detected.

As of the end of the period covered by our Form 10-Q, we carried out an evaluation, under the supervision and with the participation of the Audit Committee and management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) of the Exchange Act. The Chief Executive Officer and Chief Financial Officer originally concluded that our disclosure controls and procedures were effective, at the reasonable assurance level. However, because of the material weakness discussed below, management has reconsidered, and contemporaneously concluded in connection with the filing of this 10-Q/A, that our disclosure controls and procedures were ineffective. A material weakness, as defined by the Public Company Accounting Oversight Board, is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management determined that a material weakness existed in the Company's financial closing and reporting process as of September 30, 2006. Specifically, the Company does not have sufficient resources with the appropriate expertise to adequately evaluate complex transactions entered into by the Company and determine the appropriate application of generally accepted accounting principles (GAAP). This material weakness resulted in the error in accounting for the effects of our warrants issued to purchase common stock.

In light of the material weakness, we performed additional procedures to ensure that the condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles. Accordingly, management believes that the financial statements included in this Form 10-Q/A fairly present in all material respects our financial condition, results of operation and cash flows for the periods presented.

### **Change in Internal Control**

We are in the process of implementing improved procedures and controls designed to increase our ability to evaluate complex transactions and determine the appropriate application of GAAP. These include a review of the resources and personnel dedicated to the preparation of our financial statements. There were no material changes in our internal control over financial reporting in connection with the evaluation required by Rule 13a-15(d) under the Exchange Act that occurred during the quarter ended September 30, 2006, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. However, subsequently we have begun to take the remedial actions described above. It is expected that these remedial actions will be completed by the end of the second quarter of our 2007 fiscal year.

**Table of Contents**

**PART II-OTHER INFORMATION**

**Item 6. Exhibits.**

**Exhibits**

- 31.1 Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended.
- 31.2 Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended.
- 32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HAPC, INC.

By: /s/ Erin S. Enright

Name: Erin S. Enright

Title: Chief Financial Officer

Date: February 14, 2007