

HAPC, Inc.  
Form 10-Q  
November 14, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 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)

**20-3341405**  
(I.R.S. Employer  
Identification No.)

**350 Madison Avenue, New York, New York, 10017**

(Address of Principal Executive Offices including Zip Code)

**(212) 418-5070**

(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

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As of October 20, 2006, 21,041,918 shares of the registrant's common stock, par value \$0.0001 per share, were outstanding.

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**HAPC, INC. AND SUBSIDIARY**

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**Table of Contents****Item 1. Financial Statements****HAPC, INC. AND SUBSIDIARY**(formerly **HEALTHCARE ACQUISITION PARTNERS CORP.**)

(a corporation in the development stage)

**CONDENSED CONSOLIDATED BALANCE SHEETS**

(UNAUDITED)

	September 30, 2006	December 31, 2005
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 609,232	\$ 13,590
Investments held in trust	97,625,231	
Prepaid expenses	349,400	
Deferred offering costs		165,088
Deferred acquisition costs	385,694	
<b>Total assets</b>	<b>\$ 98,969,557</b>	<b>\$ 178,678</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b>		
<b>Current Liabilities:</b>		
Accrued expenses	\$ 15,000	\$ 93,954
Stockholder advance	100	100
Notes payable		85,000
Deferred underwriting fees	5,468,000	
<b>Total Liabilities</b>	<b>5,483,100</b>	<b>179,054</b>
<b>COMMITMENTS</b>		
Common stock subject to possible conversion 3,373,363 and 0 shares, respectively at conversion value	19,515,284	
<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	94,358,765	8,434,588
Unearned stock compensation	(2,886,841)	(8,410,598)
Deficit accumulated during the development stage	(17,502,855)	(24,783)
<b>Total stockholders equity (deficit)</b>	<b>73,971,173</b>	<b>(376)</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 98,969,557</b>	<b>\$ 178,678</b>

See accompanying notes to condensed consolidated financial statements

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

(a corporation in the development stage)

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006	For the Period From August 15, 2005 (inception) to September 30, 2005	For the period from August 15, 2005 (inception) to September 30, 2006
Revenues	\$	\$	\$	\$
General and Administrative expenses	\$ 14,335,804	\$ 18,895,774	\$ 56	\$ 18,920,257
<b>Loss from operations</b>	<b>(14,335,804)</b>	<b>(18,895,774)</b>	<b>(56)</b>	<b>(18,920,257)</b>
Other Income (Expenses):				
Interest income	1,174,645	2,031,677		2,031,677
Interest expense		(1,011)		(1,311)
	1,174,645	2,030,666		2,030,366
<b>Loss before provision for income taxes</b>	<b>(13,161,159)</b>	<b>(16,865,108)</b>	<b>(56)</b>	<b>(16,889,891)</b>
Provision for income taxes	(421,071)	(612,964)		(612,964)
<b>Net loss</b>	<b>\$ (13,582,230)</b>	<b>\$ (17,478,072)</b>	<b>(56)</b>	<b>\$ (17,502,855)</b>
Net loss per share	\$ (0.73)	\$ (1.46)	\$ 0.00	\$ (1.94)
Weighted average shares outstanding basic and diluted	18,625,252	11,988,221	1,507,092	9,040,132

See accompanying notes to condensed consolidated financial statements

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(a corporation in the development stage)

**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)**

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

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

	Common Stock			Deficit		Treasury Stock		Stockholders Equity	Total
	Shares	Par Value \$0.0001 Amount	Paid-in Capital in Excess of Par	Accumulated During the Development Stage	Deferred Stock Compensation	Shares	Amount		
Balances at August 15, 2005		\$		\$	\$		\$	\$	
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			8,410,005		(8,435,005)	1,750,001	25,000		
Amortization of stock based compensation expense					24,407				24,407
Net loss				(24,783)					(24,783)
<b>Balances at December 31, 2005</b>	<b>4,166,667</b>	<b>417</b>	<b>8,434,588</b>	<b>(24,783)</b>	<b>(8,410,598)</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
Non-cash compensation			13,049,996						13,049,996
Expenses of offering			(10,827,020)						(10,827,020)
Non-cash charge related to sale of option			1,966,666						1,966,666
Amortization of stock based compensation expense					5,523,757				5,523,757
Proceeds subject to possible conversion of 3,373,363 shares			(19,515,284)						(19,515,284)
Net loss				(17,478,072)					(17,478,072)
<b>Balances at September 30, 2006</b>	<b>21,041,918</b>	<b>\$ 2,104</b>	<b>\$ 94,358,765</b>	<b>\$ (17,502,855)</b>	<b>\$ (2,886,841)</b>	<b>(2,416,666)</b>	<b>\$</b>	<b>\$</b>	<b>73,971,173</b>

See accompanying notes to condensed consolidated financial statements



**Table of Contents****HAPC, INC. AND SUBSIDIARY**

(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)

(a corporation in the development stage)

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

	Nine Months Ended September 30, 2006	For the period from August 15, 2005 (inception) to September 30, 2005	For the period from August 15, 2005 (inception) to September 30, 2006
<b>Cash flows from operating activities:</b>			
Net loss	\$ (17,478,072)	\$ (56)	\$ (17,888,549)
<b>Adjustment to reconcile net loss to net cash used in operating activities:</b>			
Interest income on investments held in trust	(2,017,243)		(2,017,243)
Withdrawal from investments held in trust	606,805		606,805
Amortization of stock based compensation	5,523,757		5,548,164
Non-cash compensation satisfied by grant of stock	13,049,996		13,049,996
Increase in prepaid expenses	(349,400)		(349,400)
Decrease in deferred offering costs	165,088		
Increase (decrease) in accrued expenses	(78,954)		15,000
<b>Net cash used in operating activities</b>	<b>(578,023)</b>	<b>(56)</b>	<b>(1,035,227)</b>
<b>Cash flows from investing activities:</b>			
Purchase of investments held in trust	(96,214,793)		(96,214,793)
Payment of deferred acquisition costs	(385,694)		(385,694)
<b>Net cash used in investing activities</b>	<b>(96,600,487)</b>		<b>(95,600,487)</b>
<b>Cash flows from financing activities:</b>			
Advance from initial stockholder		100	100
Proceeds from note payable			60,000
Payment of notes payable	(85,000)		(85,000)
Payment of offering costs	(3,392,354)	(12,000)	(3,392,354)
Proceeds from issuance of shares of stock	81,736,222	25,000	81,861,222
Proceeds from issuance of shares of stock subject to possible conversion	19,515,284		19,515,284
<b>Net cash provided by financing activities</b>	<b>97,774,152</b>	<b>13,100</b>	<b>97,859,252</b>
<b>Net change in cash</b>	<b>595,642</b>	<b>13,044</b>	<b>609,232</b>
<b>Cash, beginning of period</b>	<b>13,590</b>		
<b>Cash, end of period</b>	<b>\$ 609,232</b>	<b>\$ 13,044</b>	<b>\$ 609,232</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>			
Cash paid for interest	\$ 1,011	\$	\$ 1,011



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Cash paid for taxes	612,964	612,964
<b>Schedule of Non-Cash Financing Transactions</b>		
Options 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
See accompanying notes to condensed consolidated financial statements		

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**HAPC, INC. AND SUBSIDIARY**

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

(a corporation in the development stage)

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation**

The information in this Form 10-Q Report includes the financial position of HAPC, Inc. and its consolidated subsidiary, Iceland Acquisition Subsidiary, Inc. (collectively, the Company) as of September 30, 2006 and the results of operations for the three and nine months ended September 30, 2006 and the periods from August 15, 2005 (date of inception) to September 30, 2005 and 2006 and of cash flows for the nine months ended September 30, 2006 and the periods from August 15, 2005 (date of inception) to September 30, 2005 and 2006. The financial statements of all entities are consolidated and all significant intercompany accounts are eliminated upon consolidation.

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. 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.

These financial statements 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 September 30, 2006 and the results of its operations for the three and nine months ended September 30, 2006 and for the periods from August 15, 2005 (date of inception) to September 30, 2005 and 2006 and its cash flows for the nine months ended September 30, 2006 and for the periods from August 15, 2005 (inception) to September 30, 2005 and 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.

Substantially all activity through September 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 \$100,000,000. 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.

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(a corporation in the development stage)

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

**(Continued)**

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, \$96,214,793 was deposited and 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 underwriters if a Business Combination is consummated, but which will be forfeited if public stockholders elect to have their shares redeemed for cash if a Business Combination is not consummated. Pro rata decreases in the Discount will occur if there is a Business Combination consummated but there are up to 19.99% dissenting share holders who elect to have their shares redeemed for cash. 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 in the event that a definitive agreement to complete a Business Combination was executed but was not consummated within such 18 month period. 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).

**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.

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

**(Continued)**

**Cash and cash equivalents**

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

**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.

The Company has a deferred tax benefit of \$5,872,498 related to the charge for the reserve of certain shares of its common stock currently held as treasury stock. The Company has established a reserve for the full amount of the benefit based on the uncertainty if the benefit will be fully utilized.

**Recently issued accounting pronouncements**

In June 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 ( FIN 48 ), which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions. A tax benefit from an uncertain position may be recognized only if it is more likely than not that the position is sustainable on its technical merits. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. The Company does not expect FIN 48 will have a material effect on its consolidated financial condition, results of operations or cash flows.

In September 2006, the FASB issued FASB Statement No. 157 Fair Value Measurements which relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. The provisions of FASB No. 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company does not expect this statement to have a material effect on its consolidated financial condition, results of operations or cash flows upon adoption.

In September 2006, the SEC issued Staff Accounting Bulletin 108, Considering The Effects Of Prior Year Misstatements When Quantifying Misstatements In Current Year Financial Statements, which provides guidance regarding the process of quantifying financial statements misstatements for the purpose of materiality assessment. The provisions are effective for fiscal years ending on or after November 15, 2006. The Company does not expect this bulletin to have a material effect on its consolidated financial condition, results of operations or cash flows upon adoption.

**Share based payment**

Statement of Financial Accounting Standards No. 123(R), Share Based Payment, requires all entities to recognize compensation expense in an amount equal to the fair value of share based payments made to employees, among other requirements.



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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

**(Continued)**

Accordingly, share based payments issued to officers, directors and vendors are measured at fair value and recognized as expense over the related vesting periods.

**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 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 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.

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**HAPC, INC. AND SUBSIDIARY**

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(a corporation in the development stage)

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

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.

**4. Investments Held In Trust**

Investments held in trust at September 30, 2006, consist of a United States Treasury money market account with a carrying value of \$97,625,231. The fair value of the investments approximate the carrying value. There were no investments held in trust as of December 31, 2005.

**5. Notes Payable**

On September 28, 2005, the Company issued a \$60,000 unsecured promissory note to Healthcare Acquisition Holdings, LLC (Holdings). 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 a Public Offering.

On December 30, 2005, the Company issued an \$25,000 unsecured promissory note, at an interest rate of 3% per annum to Healthcare Acquisition Holdings, LLC to repurchase the 4,166,667 common shares that Holdings received upon formation of the Company. These shares were included in the Treasury shares of the Company.

Due to the short-term nature of the notes, the fair values of the notes approximate the carrying values. Both notes were paid in full in May 2006 and are no longer outstanding.

Interest expense for the nine months ended September 30, 2006 and 2005 was \$1,011 and \$0, respectively.

**6. Related Party Transactions**

The Company was initially funded by a company that is owned by certain directors of the Company. Cash was received from the issuance of two unsecured promissory notes (see footnote 5). The proceeds were used as working capital until the Company was able to consummate its Public Offering. Both notes were repaid in full in May 2006.

Two of the Company's directors are employees of FTN Midwest Securities Corp. FTN Midwest Securities Corp., who was the underwriter in the Company's Public Offering, received an underwriting discount of 7%, a non-accountable expense allowance of 1% and an option to purchase 833,333 shares for a fee of \$100. The Company reserved for these directors 2,416,666 shares of its common stock held in treasury.





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(a corporation in the development stage)

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**6. Related Party Transactions (Continued)**

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.

Refer to footnote 9 for discussion of the Termination and Break Up Fee and the related guaranty.

**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.

Certain of our officers and directors have committed to purchase \$1,000,000 of the Company's warrants from the Company in a private placement at a price of \$.70 per warrant upon the filing of the preliminary proxy statement soliciting stockholder approval for the Stock Purchase Agreement discussed in Note 9. Such officers and directors have agreed not to sell or transfer the warrants until after a business combination.

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.

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.

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

(a corporation in the development stage)

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****8. Common and Preferred Stock**

Effective December 30, 2005, Healthcare Acquisition Partners Holdings, LLC 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, which will be charged to expense ratably over the forfeiture period. Of this amount, \$24,407 and \$5,523,757 was charged to expense for the periods ended December 31, 2005 and September 30, 2006, respectively. The Company will recognize the remaining \$2,886,841 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>
September 30, 2006	100%
December 31, 2006	75%
September 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.

On July 24, 2006, the Company reserved for grant to two of the Company's Directors 2,416,666 shares of the Company's 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 Public Offering).

As a result of the above, the Company took 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.

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.

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**HAPC, INC. AND SUBSIDIARY**

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

(a corporation in the development stage)

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**9. Stock Purchase Agreement**

**Entry into a Material Definitive Agreement**

On September 29, 2006, HAPC, Inc., a Delaware corporation ( HAPC ) entered into a Stock Purchase Agreement (the Stock Purchase Agreement ) with I-Flow Corporation, a Delaware corporation ( I-Flow ), Iceland Acquisition Subsidiary, Inc., a Delaware corporation and wholly-owned subsidiary of HAPC ( Acquisition Sub ) and InfuSystem, Inc., a California corporation and wholly-owned subsidiary of I-Flow ( InfuSystem ). Pursuant to the terms of the Stock Purchase Agreement, Acquisition Sub will purchase all of the issued and outstanding capital stock of InfuSystem. Concurrently with the acquisition, Acquisition Sub will merge with and into InfuSystem. After the merger, Acquisition Sub will cease to exist as an independent entity and InfuSystem, as the surviving corporation, will continue its corporate existence under the laws of the State of California. The name of the surviving corporation will be InfuSystems, Inc.

HAPC s amended and restated certificate of incorporation (the Certificate of Incorporation ) requires that the acquisition must be approved by the holders of a majority of the shares of HAPC common stock sold in the Public Offering. The acquisition cannot be completed if holders of 20% or more of the shares of HAPC common stock sold in the Public Offering vote against the acquisition and, as permitted by the Certificate of Incorporation, demand that their shares be converted (the Conversion Rights ) into the right to receive a pro rata portion of the net proceeds of the Public Offering held in a trust account established for this purpose at the time of the Public Offering (the approval of the majority of the shares cast together with the exercise of the Conversion Rights by less than 20% of the HAPC common stock issued in the Public Offering, HAPC Stockholder Approval ). If the holders of less than 20% of the shares of HAPC common stock exercise their Conversion Rights and the transaction closes, such holders will receive their pro rata share of the trust proceeds.

**Purchase Price**

In consideration for the acquisition of all of the issued and outstanding shares of capital stock of InfuSystem, HAPC or Acquisition Sub will pay to I-Flow a purchase price of \$140,000,000, subject to certain working capital adjustments as set forth in the Stock Purchase Agreement. The purchase price will be paid by HAPC or Acquisition Sub in cash or a combination of (i) a secured promissory note (the Promissory Note ) payable to I-Flow in a principal amount equal to \$55,000,000 plus the amount actually paid to HAPC s stockholders who exercise their Conversion Rights but not to exceed \$75,000,000 (the Maximum Amount ) and (ii) an amount of cash purchase price equal to \$65,000,000 plus the difference between the Maximum Amount and the actual principal amount of the Promissory Note. In connection with I-Flow s commitment to accept the Promissory Note, a \$100,000 delivery fee is payable by HAPC to I-Flow by October 4, 2006 and a Ticking Fee (between 0.50% and 1.0% per annum of the Maximum Amount) is payable from September 29, 2006 until the earlier of the closing under the Stock Purchase Agreement, termination of the Stock Purchase Agreement or HAPC s notice that, because alternative financing has been secured, the Promissory Note to I-Flow will no longer be required. On October 4, 2006, the Company paid \$100,000 to I-Flow representing the delivery fee.

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**HAPC, INC. AND SUBSIDIARY**

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

(a corporation in the development stage)

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**9. Stock Purchase Agreement (Continued)  
Representations, Warranties and Covenants**

The Stock Purchase Agreement contains representations and warranties of each of HAPC, I-Flow, Acquisition Sub and InfuSystem, as applicable, relating to, among other matters, (i) corporate organization and similar corporate matters, (ii) title to stock, (iii) capitalization, (iv) the authorization, performance and enforceability of the Stock Purchase Agreement, (v) taxes, (vi) financial statements and the absence of undisclosed liabilities, (vii) material contracts, (viii) absence of certain changes, (ix) compliance with applicable laws, (x) absence of litigation, (xi) insurance, (xii) consents, (xiii) licenses and permits, (xiv) validity of leases, (xv) title to assets, (xvi) employer and employee benefit matters, (xvii) environmental matters and (xviii) intellectual property matters.

InfuSystem has agreed to continue to operate its business in the ordinary course prior to the closing of the transactions contemplated by the Stock Purchase Agreement and each of the parties has agreed (i) not to take any action to cause its representations and warranties to become untrue and (ii) to use all commercially reasonable efforts to consummate the transactions contemplated by the Stock Purchase Agreement in accordance with the terms set forth therein. Each party has also agreed to maintain the confidentiality of the other's proprietary information.

**Indemnification**

Under the Stock Purchase Agreement, each of HAPC and I-Flow have agreed to indemnify the other and its affiliates, subject to certain limitations, against certain losses arising from, among other matters, such party's breach of the Stock Purchase Agreement.

**Termination and Break Up Fee**

In the event that the Stock Purchase Agreement is terminated (i) because of HAPC's failure to obtain HAPC Stockholder Approval by April 30, 2007 for any reason or (ii) because HAPC or Acquisition Sub is unwilling or unable to consummate the transactions contemplated by the Stock Purchase Agreement notwithstanding the fact that all conditions precedent to the Stock Purchase Agreement to be satisfied by I-Flow and InfuSystem (and the receipt of HAPC Stockholder Approval) have been satisfied or are capable of fulfillment, HAPC must pay I-Flow a break up fee. In the event that I-Flow terminates the Stock Purchase Agreement after April 30, 2007 and the break up fee is payable for the sole reason that HAPC has not held the stockholder meeting seeking HAPC Stockholder Approval by April 30, 2007, the break up fee will be \$1,000,000. In all other cases where a break up fee is payable, the amount will be \$3,000,000.

Payment of the break up fee has been guaranteed to I-Flow by Messrs. Sean D. McDevitt and Philip B. Harris (the Guarantors) pursuant to a Continuing Guaranty provided by the Guarantors in favor of I-Flow and delivered concurrently with the execution of the Stock Purchase Agreement. Pursuant to the terms of a Guarantee Fee and Reimbursement Agreement entered into by HAPC and the Guarantors on September 29, 2006, HAPC has agreed to pay the Guarantors a fee of \$100,000 upon delivery of the Continuing Guaranty and \$300,000 upon closing of the transactions contemplated by, or the termination of, the Stock Purchase Agreement. HAPC has also agreed to reimburse the Guarantors for any payments actually made by them in connection with the Continuing Guaranty. Messrs. McDevitt and Harris have delivered to I-Flow a \$3,000,000 letter of credit issued by JPMorgan for the benefit of I-Flow which I-Flow may draw upon in the event that the break up fees are not paid when due and payable.

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

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as *may*, *should*, *could*, *would*, *expect*, *plan*, *anticipate*, *believe*, *estimate*, 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 Security and Exchange filings.

#### **Critical Accounting Policies and Estimates**

Management's discussion addresses the consolidated financial statements of HAPC, Inc. (the *Company*), which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

Management believes the following critical accounting policy affects 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 securities of other comparable publicly traded companies.

#### **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.

On September 29, 2006, the Company entered into a Material Definitive Agreement with InfuSystem, Inc. who, if the Business Combination will be consummated, will be the surviving corporation and continue its corporate existence under the laws of the State of California. An in depth discussion of the possible merger can be found under footnote 9.

#### **Results of Operations for the Three and Nine months Ended September 30, 2006 with Comparable Prior Year Periods**

During the three months ended September 30, 2006, we had not yet consummated a business combination with one or more operating businesses, however we signed a Material Definitive Agreement (see footnote 9) and incurred non-cash expenses of \$1,142,240 and \$13,049,996, which represented the amortization of stock based compensation and the value of 2,416,666 shares granted to two of the Company's Directors, respectively. The balance of expenses were offset by interest income of \$1,174,645, resulting in a net loss of \$13,582,230 for the three months ended September 30, 2006.

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During the nine months ended September 30, 2006, in addition to incurring \$5,523,757 and \$13,049,996 of non-cash expenses, we completed our initial public offering. The net loss of \$17,478,072 for the nine months ended September 30, 2006 primarily consisted of non-cash expenses, representing amortization of compensation costs and the value of granted stock. These expenses were offset by interest income totaling \$2,031,677, earned on proceeds from the Public Offering.

For the comparable periods of the prior year which comprised August 15, 2005 (date of inception) to September 30, 2005, the Company had substantially no operations.

### **Liquidity and Capital Resources**

For the nine months ended September 30, 2006, the Company experienced positive cash flow and financed its operations primarily from cash generated from its issuance of stock at its consummated initial Public Offering, discussed below in further detail. As of September 30, 2006, the Company had \$609,232 of cash and cash equivalents, an increase of approximately \$595,642 from the \$13,590, at December 31, 2005, which relates primarily to interest income.

Net cash used by operating activities for the nine months ended September 30, 2006 was \$578,023, which primarily included the Company's net loss of \$17,478,072, an increase in prepaid expenses of \$349,400 and decreases in accrued expenses of \$78,954 and interest income on investments held in trust of \$2,017,243, offset by non-cash charges of \$5,523,757 and \$13,049,996, representing stock based compensation and non-cash compensation satisfied by grant of stock, respectively.

Net cash used in investing activities for the nine months ended September 30, 2006 amounted to \$96,600,487, the result of purchasing investments held in trust for \$96,214,793 and the payment of deferred acquisition costs totaling \$385,694. The investments held in trust are only to be utilized for the acquisition of a target business or the payment of income taxes.

Net cash provided by financing activities for the nine months ended September 30, 2006 was the result of proceeds of \$101,251,806 received from issuance of shares of stock, offset by payments of notes payable totaling \$85,000 and payment for costs associated with the Company's initial public offering amounting to \$3,392,354.

The Company entered into a Material Definitive Agreement, discussed in more detail in footnote 9. There can be no assurance that such transaction will be consummated. In the event that the proposed acquisition is not undertaken, it is likely that the Company will have insufficient time and resources to look for another suitable acquisition target and will most likely have to liquidate.

On April 18, 2006, we consummated our initial 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. \$97,625,231 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.

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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.

### **Contractual Obligations**

We do not have any contractual obligations.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Market risk is the sensitivity of income to changes in interest rates, foreign exchanges, commodity prices, equity prices, and other market-driven rates or prices. We are not presently engaged in and, if a suitable business target is not identified by us prior to the prescribed liquidation date of the trust fund, we may not engage in any substantive commercial business. Accordingly, we are not and, until such time as we consummate a business combination, we will not be, exposed to risks associated with foreign exchange rates, commodity prices, equity prices or other market-driven rates or prices. The net proceeds of our initial public offering held in the trust fund have been invested only in money market funds meeting certain conditions under Rule 2a-7 promulgated under the Investment Company Act of 1940. Given the nature of these investments, we do not view the interest rate or market risk to be significant.

### **Item 4. Controls and Procedures.**

On November 13, 2006, our management, after discussion with the Audit Committee, determined that it was necessary for us to restate (i) our audited balance sheet as of April 18, 2006 and related statements of operations, stockholders equity (deficit) and cash flows for the periods from January 1, 2006 to April 18, 2006, and from August 15, 2005 (inception) to April 18, 2006 filed with our Current Report on Form 8-K on April 26, 2006 and (ii) our unaudited interim financial statements for the six months ended June 30, 2006 filed with our Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.

### **Background to the restatements**

The most significant of the changes made to the aforementioned financial statements include the following revisions to the Company's balance sheets as of April 18, 2006 and June 30, 2006:

(i) the inclusion, as mezzanine equity, of the conversion rights exercisable by 19.99% of the holders of our common stock issued in our initial public offering who may vote against a proposed business combination to be consummated by the Company and elect to exchange their shares of common

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stock for cash equal to a pro rata portion of the proceeds held in the trust account, including interest, in which a substantial portion of the net proceeds of the public offering have been deposited; and

(ii) the inclusion of an additional line item to delineate the cash held in the trust account which is reserved for distribution to our stockholders and the cash held outside of the trust account which we may use for its general working capital purposes.

As a result of these changes, our previously issued audited balance sheet as of April 18, 2006 and related statements of operations, stockholders equity (deficit) and cash flows for the periods from January 1, 2006 to April 18, 2006, and from August 15, 2005 (inception) to April 18, 2006 and our unaudited interim financial statements for the six months ended June 30, 2006 should no longer be relied upon.

The determination to restate our financial statements for the aforementioned periods was reached by our management, in consultation with the Audit Committee, during the preparation and review of the financial statements and information for the fiscal quarter ended September 30, 2006.

### **Evaluation of Disclosure Controls and Procedures**

In connection with preparation of this Form 10-Q, under the direction of our chief executive officer (our principal executive officer) and chief financial officer (our principal financial and accounting officer), we reevaluated our disclosure controls and procedures as of September 30, 2006. In light of the need for the restatement described above, management has identified material weaknesses in our internal control over financial reporting. Solely as a result of these material weaknesses, our chief executive officer (our principal executive officer) and chief financial officer (our principal financial and accounting officer) have concluded that our disclosure controls and procedures were not effective as of the period covered by this report.

### **Remediation of Material Weakness in Internal Control**

We are in the process of implementing improved procedures and controls designed to increase our ability to identify appropriate accounting principles. These include a review of the resources and personnel dedicated to the preparation of our financial statements. There were no significant 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 our 2006 fiscal year.



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**PART II-OTHER INFORMATION**

**Item 1. Legal Proceedings.**

There are no legal proceedings pending against us.

**Item 1A. Risk Factors.**

*If the acquisition is not approved by our stockholders, it is unlikely that we will be able to consummate an alternate business combination within the time frame required by our amended and restated certificate of incorporation, in which case, we will be forced to liquidate.*

Pursuant to the terms of our amended and restated certificate of incorporation, we must complete a business combination with a fair market value of at least 80% of its net assets (excluding the deferred underwriting discount and commission held in the trust account in the amount of approximately \$5,468,000) at the time of the business combination within 18 months after the consummation of its initial public offering (or within 24 months after the consummation of its initial public offering if a definitive agreement relating to a business combination has been executed within 18 months after the consummation of its initial public offering). As the Stock Purchase Agreement was executed on September 29, 2006, the amended and restated certificate of incorporation requires us to consummate the acquisition of InfuSystem by April 18, 2008 (notwithstanding the fact that we are contractually bound to complete the acquisition by April 30, 2007 under the terms of the Stock Purchase Agreement). If we fail to consummate the acquisition by April 18, 2008, it is unlikely that we will have sufficient time to complete an alternative business combination and will be forced to liquidate its assets.

*If we are forced to liquidate our assets, our stockholders may receive less than \$6.00 per share upon distribution of the trust account and our warrants will expire worthless.*

If we are unable to complete the acquisition and forced to liquidate our assets, the per-share liquidation distribution on the shares of common stock sold in our initial public offering may be less than \$6.00 because of the expenses related to the initial public offering, general and administrative expenses and the costs of seeking the acquisition of InfuSystem. Furthermore, warrants issued by us will expire worthless if we liquidate before the completion of the acquisition.

*If our stockholders exercise their right to convert their common stock into a pro rata share of the trust account, we will need to increase that amount that we borrow from I-Flow under the Promissory Note*

Pursuant to our amended and restated certificate of incorporation, holders of shares common stock issued in the our initial public offering in April 2006 may vote against the acquisition and demand that we convert their shares, as of the record date, into a pro rata share of the trust account where a substantial portion of the net proceeds of the initial public offering are held. Pursuant to the Stock Purchase Agreement, we will not consummate the acquisition if stockholders owning 20% or more shares of common stock issued in the initial public offering exercise these conversion rights. To the extent the acquisition is consummated and holders have demanded to convert their shares, there will be a corresponding increase in the amount that we will need to borrow from I-Flow under the Promissory Note. The principal amount of the Promissory Note will thus range from \$55,000,000 to \$75,000,000, the difference used to pay stockholders who exercise their conversion rights. Assuming the acquisition is approved and less than 20% of our shares of common stock that were issued in the initial public offering exercise their conversion rights, the maximum amount of funds that could be disbursed to our stockholders upon the exercise of their conversion rights is approximately \$20,000,000, or approximately 21% of the funds then held in the trust account. Any payment upon exercise of conversion rights will require us to increase the principal amount that we borrow under the Promissory Note.

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***Debt incurred in connection with the acquisition of InfuSystem could adversely affect our operations and financial condition.***

If the acquisition of InfuSystem is consummated we will be highly leveraged. Depending upon the number of our stockholders who exercise their conversion rights, we will owe I-Flow between \$55,000,000 and \$75,000,000 under the Promissory Note, in addition to interest accrued thereon.

Such indebtedness could have adverse consequences for our business, financial condition and results of operations, such as:

limiting our ability to obtain additional financing to fund growth and working capital;

limiting our operational flexibility in planning for or reacting to changing conditions in our business and industry;

limiting our ability to compete with companies that are not as highly leveraged, or whose debt is at more favorable interest rates and that, as a result, may be better positioned to withstand economic downturns; and

increasing our vulnerability to economic downturns and changing market conditions or preventing us from carrying out capital spending that is necessary or important to our growth strategy.

If we do not have enough money to meet our payment obligations under the Promissory Note when due, we may be required to refinance all or part of our debt under the Promissory Note, sell assets or borrow more money. We may not be able to, at any given time, refinance our debt under the Promissory Note, sell assets or borrow more money on terms acceptable to us or at all, the failure to do any of which could have adverse consequences for our business, financial condition and results of operations.

***Our ability to operate successfully after the acquisition will be largely dependent upon the efforts of the key personnel who will join us following the acquisition and who may be unfamiliar with the requirements of operating a public company.***

Our ability to successfully operate after the acquisition of InfuSystem will be dependent upon the efforts of our key personnel. The future role of our management personnel following the acquisition, however, cannot presently be fully ascertained. Pursuant to the terms of an employment agreement under negotiation between us and Steven E. Watkins, chief executive officer of InfuSystem, it is anticipated that Mr. Watkins will replace John Voris as chief executive officer of HAPC upon completion of the acquisition. Mr. Watkins will also become a member of our Board of Directors. At the time the acquisition is completed, we intend to recruit a new chief financial officer and it is contemplated that upon the successful recruitment of a new chief financial officer, Erin Enright, the current chief financial officer of HAPC, will resign. Additionally, upon completion of the acquisition, the remaining members of InfuSystem's current management team will be employed by us in capacities similar to their roles with respect to InfuSystem. While we intend to closely scrutinize any additional individuals we engage after the acquisition of InfuSystem, we cannot assure you that our assessment of these individuals will prove to be correct. These individuals may be unfamiliar with the requirements of operating a public company as well as with United States securities laws which could cause us to have to expend time and resources helping them become familiar with such laws. This could be expensive and time-consuming, which would reduce our profitability, and could lead to various regulatory problems that would further increase costs and reduce profitability.

***Because certain of our directors and officers own shares of our common stock that will not participate in any liquidation distribution of the trust account, they have interests in the acquisition that are different from our stockholders generally.***

In considering the recommendation of our Board of Directors to vote for the proposal to approve the acquisition and adopt the Stock Purchase Agreement, stockholders should be aware that members of our Board are parties to agreements or arrangements that provide them with interests that differ from, or are in addition to, those of our

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stockholders generally. Our directors and officers, other than Sean McDevitt and Pat LaVecchia, own shares of our common stock that were issued prior to our initial public offering. Our initial stockholders will not have the right to receive distributions from the trust account upon our liquidation in the event that we fail to complete the acquisition of InfuSystem within the time frame required by our amended and restated certificate of incorporation. The shares of common stock owned by our directors and officers will be worthless if we do not consummate a business combination.

In addition, Sean McDevitt, our Chairman, has personally guaranteed our payment of up to \$3,000,000 in break up fees to I-Flow in the event that that Stock Purchase Agreement is terminated by I-Flow (i) because of our failure to obtain the stockholder approval required by the terms of the Stock Purchase Agreement by April 30, 2007 for any reason or (ii) because HAPC or Acquisition Sub is unwilling or unable to consummate the transactions contemplated by the Stock Purchase Agreement, notwithstanding the fact that all conditions precedent to the Stock Purchase Agreement to be satisfied by I-Flow and InfuSystem have been satisfied or are capable of fulfillment.

***We expect to incur significant costs associated with the acquisition, whether or not the acquisition is completed, which will reduce the amount of cash otherwise available for other corporate purposes.***

We expect to incur significant costs associated with the acquisition, whether or not the acquisition is completed. These costs will reduce the amount of cash otherwise available for other corporate purposes. Transaction costs will be expensed by the respective parties whether or not the acquisition is consummated. We estimate that we will incur direct transaction costs of approximately \$1,500,000. There is no assurance that the actual costs may not exceed these estimates. In addition, InfuSystem and/or HAPC may incur additional material charges reflecting additional costs associated with the acquisition in fiscal quarters subsequent to the quarter in which the acquisition was consummated. There is no assurance that the significant costs associated with the acquisition will prove to be justified in light of the benefits ultimately realized.

***The consummation of the acquisition could result in disruptions in business, loss of customers or contracts or other adverse effects.***

The consummation of the acquisition may cause disruptions, including potential loss of business partners and customers, in the business of InfuSystem, which could have material adverse effects the operations of InfuSystem subsequent to the merger of Acquisition Sub with and into InfuSystem. InfuSystem's customers, and other business partners, in response to the consummation of the acquisition, may adversely change or terminate their relationships with InfuSystem, which could have a material adverse effect on the business of InfuSystem.

***If our initial stockholders exercise their registration rights after the consummation of the acquisition, it may have an adverse effect on the market price of our common stock.***

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. If our initial stockholders exercise their registration rights with respect to all of the shares of common stock held by them, then there will be at least 1,750,001 shares of common stock eligible for trading in the public market (in addition to 2,000,000 shares of common stock to be issued to Sean McDevitt and 416,666 shares of common stock to be issued to Pat LaVecchia by us on the date that is the later of six months after completion of the acquisition or April 11, 2007). The presence of this additional number of shares of common stock eligible for trading in the public market may have an adverse effect on the market price of the common stock after the acquisition.

***If the acquisition's benefits do not meet the expectations of the marketplace, or financial or industry analysts, the market price of our common stock may decline.***

The market price of our common stock may decline as a result of the acquisition if InfuSystem does not perform as expected, or we do not otherwise achieve the perceived benefits of the acquisition as rapidly as, or to the extent anticipated by the marketplace, or financial or industry analysts. Accordingly, investors may experience a loss as a result of a decreasing stock price and we may not be able to raise future capital, if necessary, in the equity markets.

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*As a result of the acquisition, our stockholders will be solely dependent on a single business.*

As a result of the acquisition, our stockholders will be solely dependent upon the performance of InfuSystem and its business. InfuSystem will be subject to a number of risks that relate generally to the healthcare industry and other risks that relate specifically to InfuSystem.

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

During the past three years, we sold the following shares of common stock without registration under the Securities Act:

Stockholder	Number of Shares
Healthcare Acquisition Partners Holdings, LLC	4,166,667

Such shares were issued on September 13, 2005 in connection with our organization pursuant to the exemption from registration contained in Section 4(2) of the Securities Act of 1933. The shares issued to Healthcare Acquisition Partners Holdings, LLC ( Holdings ) for an aggregate offering price of \$25,000, or at an average purchase price of approximately \$0.006 per share. On December 30, 2005, Holdings transferred all 4,166,667 shares back to us for \$25,000 and we transferred 1,750,001 to members of management as required under the terms under which they accepted their positions pursuant to the exemption from registration contained in Section 4(2) of the Securities Act of 1933. No underwriting discounts or commissions were paid with respect to such sales.

On April 18, 2006, we consummated our initial public offering of 16,666,667 Units and on May 18, 2006, we sold an additional 208,584 Units pursuant to the partial exercise by the underwriter of its overallotment option. Each Unit consists of one share of our common stock, \$.0001 par value, and two Redeemable Common Stock Purchase Warrants ( Warrants ). Each Warrant will entitle the holder to purchase from us one share of common stock at an exercise price of \$5.00 commencing the later of the completion of a business combination or one year from the effective date of the initial public offering and expiring five years from the effective date of the initial public offering. We 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. The units were sold at an offering price of \$6.00 per unit, generating total gross proceeds of \$101,251,506 (including exercise of the overallotment option). FTN Midwest Securities acted as underwriter. The securities sold in the offering were registered under the Securities Act of 1933, as amended, on a registration statement on Form S-1 (No. 333-128008). The Securities and Exchange Commission declared the registration statement effective on April 11, 2006.

We incurred a total of approximately \$2,620,000 in underwriting discounts and commissions to FTN Midwest Securities. The representative of the underwriters in the initial public offering deposited 5.4% of the gross proceeds attributable to the underwriter's discount (\$5,468,000) into the trust fund that will be paid to the underwriters only upon the consummation of a business combination. We paid a total of approximately \$2,620,000 in underwriting discounts and commissions and approximately \$500,000 has been paid for costs and expenses related to the public offering.

After deducting the underwriting discounts and commissions and the offering expenses, the total net proceeds to us from the offering were approximately \$97,859,000 (including deferred underwriter's discount and commission of \$5,468,000). As of September 30, 2006, \$97,625,231 is being held in a trust fund. Of this amount, \$96,214,793 represents principal deposited to the trust account and the remaining \$1,410,438 represents interest earned on the principal balance.

For additional information on our use of proceeds from our public offering, please see Item 2 of Part I in this report.

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**Item 3. Defaults Upon Senior Securities.**

Not applicable.

**Item 4. Submission of Matters to a Vote of Security Holders.**

Not applicable.

**Item 5. Other Information.**

Not applicable.

**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.

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**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.**

Date: November 14 , 2006

By: /s/ Erin S. Enright  
Erin S. Enright  
Chief Financial Officer