HAPC, Inc.
Form 10-Q/A
February 14, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

x **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	**20-3341405**
(State or Other Jurisdiction of	**(I.R.S. Employer Identification No.)**
Incorporation or Organization)	

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 x 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 x

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

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.

Explanatory Note

As discussed in Note 4 to the condensed consolidated financial statements included herein, HAPC, INC. (the Company) has restated in this Quarterly Report on Form 10-Q/A (the Form 10-Q/A) the Condensed Consolidated Financial Statements as of September 30, 2006 and for the three and nine months ended September 30, 2006, the period from August 15, 2005 (inception) to September 30, 2006 and the period January 1, 2006 to September 30, 2006 included in the Company s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006 originally filed with the United States Securities and Exchange Commission (the SEC) on November 14, 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 nine months ended September 30, 2006 previously filed with the SEC on November 14, 2006 included in the Form 10-Q.

The Company s Condensed Consolidated Financial Statements referenced above have been 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. Subsequent to filing the Company s Form 10-Q, management 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.

Additionally, the Company s statement of cash flows for the period from August 15, 2005 (inception) to September 30, 2006 includes mathematical corrections in the adjustments column to correct the as previously reported column in the Form 10-Q. The net loss adjustment includes $385,694, which is a mathematical correction, and the warrant liability adjustment of $9,450,140. The net cash used in investing activities line item includes a $1,000,000 adjustment to correct a mathematical error and the proceeds from public offering line item included in cash flows from financing includes a $100,000 adjustment to correct a mathematical error.

All the information in this Form 10-Q/A is as of November 14, 2006, the date the Company originally filed its Form 10-Q 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 Form 10-Q/A. For the convenience of the reader, this 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/A 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

The Company is including currently dated Sarbanes-Oxley Act Section 302 and Section 906 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.

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HAPC, INC. AND SUBSIDIARY

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PART I - FINANCIAL INFORMATION

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 (Restated, see Note 4)	December 31, 2005
ASSETS		
Current assets:		
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	
Total assets	**$ 98,969,557**	**$ 178,678**
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current Liabilities:		
Accrued expenses	$ 15,000	$ 93,954
Stockholder advance	100	100
Notes payable		85,000
Deferred underwriting fees	5,468,000	
Warrant liabilities	10,462,656	
Total Liabilities	**15,945,756**	**179,054**
COMMITMENTS		
Common stock subject to possible conversion 3,373,363 and 0 shares, respectively at conversion value	19,515,284	
Stockholders Equity (Deficit)		
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	71,559,128	23,990
Deficit accumulated during the development stage	(8,052,715)	(24,783)
Total stockholders equity (deficit)	**63,508,517**	**(376)**

Total liabilities and stockholders equity	**$ 98,969,557**	**$ 178,678**

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)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30, 2006 (Restated, see Note 4)	Nine Months Ended September 30, 2006 (Restated, see Note 4)	For the Period From August 15, 2005 (inception) to September 30, 2005	For the period from August 15, 2005 (inception) to September 30, 2006 (Restated, see Note 4)
Revenues	$	$	$	$
General and Administrative expenses	$ 14,335,804	$ 18,895,774	$ 56	$ 18,920,257
Loss from operations	**(14,335,804)**	**(18,895,774)**	**(56)**	**(18,920,257)**
Other Income (Expenses):				
Interest income	1,174,645	2,031,677		2,031,677
Interest expense		(1,011)		(1,311)
Gain (loss) on warrant liabilities	(337,505)	9,450,140		9,450,140
	837,140	11,480,806		11,480,506
Loss before provision for income taxes	**(13,498,664)**	**(7,414,968)**	**(56)**	**(7,439,751)**
Provision for income taxes	(421,071)	(612,964)		(612,964)
Net loss	**$ (13,919,735)**	**$ (8,027,932)**	**(56)**	**$ (8,052,715)**
Net loss per share	$ (0.75)	$ (.67)	$ 0.00	$ (.89)
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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HAPC, INC. AND SUBSIDIARY

(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)

(a corporation in the development stage)

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)

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

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

	Common Stock		Paid-in	Deficit Accumulated	Treasury Stock		Total
		Par Value $0.0001	Capital in Excess of	During the Development			Stockhold
	Shares	**Amount**	**Par**	**Stage**	**Shares**	**Amount**	**Equity**
nces at August 15, 2005		$		$		$	$
mon stock issued September 13, 2005	4,166,667	417	24,583				25,
sury stock purchased					(4,166,667)	(25,000)	(25,
nce of treasury shares for services			(25,000)		1,750,001	25,000	
rtization of stock based compensation expense			24,407				24,
oss				(24,783)			(24,
nces at December 31, 2005	**4,166,667**	**417**	**23,990**	**(24,783)**	**(2,416,666)**		**(**
nce of common stock and Warrants	16,875,251	1,687	101,249,819				101,251,
assification of proceeds allocated to warrants-derivatives liabilities (As Restated, see Note 4)			(19,912,796)				(19,912,
cash compensation			13,049,996				13,049,
nses of offering			(10,827,020)				(10,827,
cash charge related to sale of option			1,966,666				1,966,
rtization of stock based compensation expense			5,523,757				5,523,
eeds subject to possible conversion of 3,373,363 shares			(19,515,284)				(19,515,
oss (As Restated, see Note 4)				(8,027,932)			(8,027,
nces at September 30,2006							
tated, See Note 4)	**21,041,918**	**$ 2,104**	**$ 71,559,128**	**$ (8,052,715)**	**(2,416,666)**	**$**	**$ 63,508,**

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)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2006 (Restated, See Note 4)	For the period from August 15, 2005 (inception) to September 30, 2005	For the period from August 15, 2005 (inception) to September 30, 2006 (Restated, See Note 4)
Cash flows from operating activities:			
Net loss	$ (8,027,932)	$ (56)	$ (8,052,715)
Adjustment to reconcile net loss to net cash used in operating activities:			
Gain on warrant liabilities	(9,450,140)		(9,450,140)
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
Changes in assets and liabilities:			
Increase in prepaid expenses	(349,400)		(349,400)
Decrease in deferred offering costs	165,088		
Increase (decrease) in accrued expenses	(78,954)		15,000
Net cash used in operating activities	**(578,023)**	**(56)**	**(649,533)**
Cash flows from investing activities:			
Purchase of investments held in trust	(96,214,793)		(96,214,793)
Payment of deferred acquisition costs	(385,694)		(385,694)
Net cash used in investing activities	**(96,600,487)**		**(96,600,487)**
Cash flows from financing activities:			
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 public offering	81,736,222	25,000	81,761,222
Proceeds from issuance of shares subject to possible conversion	19,515,284		19,515,284
Net cash provided by financing activities	**97,774,152**	**13,100**	**97,859,252**
Net change in cash	**595,642**	**13,044**	**609,232**

Cash, beginning of period		**13,590**				
Cash, end of period	**$**	**609,232**	**$**	**13,044**	**$**	**609,232**
Supplemental Disclosures of Cash Flow Information:						
Cash paid for interest	$	1,011	$		$	1,011
Cash paid for taxes		612,964				612,964
Schedule of Non-Cash Financing Transactions						
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
Warrant obligation in connection with sale of units in offering		19,912,796				19,912,796

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/A 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 period 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.

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 and its cash flows for the nine months ended September 30, 2006 and 2005 and period from August 15, 2005 (inception) to September 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.

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).

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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

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

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, $96,214,793 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.

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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

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

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

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. pursuant to a partial exercise by FTN Midwest Securities Corp., the lead underwriter in the Company s initial public offering, of its overallotment option. The Overalloment Units were sold at the offering price of $6.00 per Unit, less 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.

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HAPC, INC. AND SUBSIDIARY

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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)

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 derivative contracts that are settled in a company s own stock, including common stock warrants, to be designated as equity instruments, assets or liabilities. Under the provisions of EITF 00-19, a contract designated as an asset or a liability must be carried at its 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 value 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 is 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.

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 or results of operations.

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HAPC, INC. AND SUBSIDIARY

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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)

In September 2006, the FASB issued FASB Statement No. 157 Fair Value Measurements which relates 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 or results of operations upon adoption.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 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 statement 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 or results of operations 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.

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.

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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

3. Initial Public Offering (Continued)

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 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.

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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)

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. Restatement of Previously Issued Financial Statements

In February 2007, the Company concluded that it was necessary to restate the Condensed Consolidated Financial Statements as of September 30, 2006 and for the three and nine months ended September 30, 2006, the period from August 15, 2005 (inception) to September 30, 2006, the period January 1, 2006 to 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 as equity. Subsequent to filing the Company s Form 10-Q, management 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 value of these warrants results in adjustments to the amount of the recorded liabilities, and the corresponding gain or loss recorded in the Company s statement of operations. The fair value of the Company s 33,750,502 warrants outstanding at September 30, 2006 was $10,462,656 or $0.31 per warrant.

Additionally, the Company s statement of cash flows for the period from August 15, 2005 (inception) to September 30, 2006 includes mathematical corrections in the adjustments column to correct the as previously reported column in the Form 10-Q. The net loss adjustment includes $385,694, which is a mathematical correction, and the warrant liability adjustment of $9,450,140. The net cash used in investing activities line item includes a $1,000,000 adjustment to correct a mathematical error and the proceeds from public offering line item included in cash flows from financing includes a $100,000 adjustment to correct a mathematical error.

The impact of the restatement in the Company s Condensed Consolidated Financial Statements is summarized below.

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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

4. Restatement of Previously Issued Financial Statements (Continued)

STATEMENTS OF OPERATIONS

	For the period from August 15, 2005 (date of inception) through September 30, 2006		
	As Previously Reported	Adjustments	As Restated
General and Administrative expenses	$ (18,920,257)	$	$ (18,920,257)
Interest income	2,031,677		2,031,677
Interest expense	(1,311)		(1,311)
Gain on warrant liabilities		9,450,140	9,450,140
Loss before provision for taxes	(16,889,891)	9,450,140	(7,439,751)
Provision for income taxes	612,964		612,964
Net loss	**$ (17,502,855)**	**$ 9,450,140**	**$ (8,052,715)**
Weighted average shares outstanding - basic	9,040,132		9,040,132
Net loss per share	$ (1.94)	$ 1.05	$ (0.89)

	For the three months ended September 30, 2006		
	As Previously Reported	Adjustments	As Restated
General and Administrative expenses	$ (14,335,804)	$	$ (14,335,804)
Interest income	1,174,645		1,174,645
Interest expense			
Loss on warrant liabilities		(337,505)	(337,505)
Loss before provision for taxes	(13,161,159)	(337,505)	(13,498,664)
Provision for income taxes	421,071		421,071
Net loss	**$ (13,582,230)**	**$ (337,505)**	**$ (13,919,735)**
Weighted average shares outstanding - basic	18,625,252		18,625,252
Net loss per share	$ (0.73)	$ (0.02)	$ (0.75)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Restatement of Previously Issued Financial Statements (Continued)

	For the nine months ended September 30, 2006		
	As Previously Reported	Adjustments	As Restated
General and Administrative expenses	$ (18,895,774)	$	$ (18,895,774)
Interest income	2,031,677		2,031,677
Interest expense	(1,011)		(1,011)
Gain on warrant liabilities		9,450,140	9,450,140
Loss before provision for taxes	(16,865,108)	9,450,140	(7,414,968)
Provision for income taxes	612,964		612,964
Net loss	**$ (17,478,072)**	**$ 9,450,140**	**$ (8,027,932)**
Weighted average shares outstanding - basic	11,988,221		11,988,221
Net loss per share	$ (1.46)	$ 0.79	$ (0.67)

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HAPC, INC. AND SUBSIDIARY

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Restatement of Previously Issued Financial Statements (Continued)

BALANCE SHEET

	September 30, 2006 As Previously Reported	Adjustments	September 30, 2006 As Restated
ASSETS			
Current assets:			
Cash and cash equivalents	$ 609,232	$	$ 609,232
Cash held in trust account	97,625,231		