

HAPC, Inc.  
Form PREM14A  
December 07, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a)**  
**of the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12

**HAPC, INC.**

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(Name of Registrant as Specified in its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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1) Title of each class of securities to which transaction applies:

Common Stock of InfuSystem, Inc.

2) Aggregate number of securities to which transaction applies:

Acquisition of all of the outstanding securities of InfuSystem, Inc.

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

\$140,000,000 is being paid for all of the outstanding capital stock of InfuSystem, Inc.

4) Proposed maximum aggregate value of transaction:

\$140,000,000

5) Total fee paid:

\$14,980

Fee paid previously with preliminary materials:

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount previously paid:

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2) Form, Schedule or Registration Statement No.:

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3) Filing Party:

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4) Date Filed:

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**HAPC, INC.**

**350 Madison Avenue, 20th Floor**

**New York, New York 10017**

**(212) 418-5070**

**PROXY STATEMENT FOR SPECIAL MEETING OF STOCKHOLDERS OF**

**HAPC, INC.**

To the Stockholders of HAPC, INC. ( "HAPC" ):

You are cordially invited to attend a special meeting (the "Special Meeting" ) of the stockholders of HAPC, INC., or HAPC, to be held at a.m., Eastern Time, on \_\_\_\_\_, 2006, at the offices of \_\_\_\_\_ relating to HAPC's acquisition of InfuSystem, Inc. or InfuSystem.

The transaction will be effected by the acquisition by Iceland Acquisition Subsidiary, Inc. or Acquisition Sub, a wholly-owned subsidiary of HAPC, of all of the issued and outstanding capital stock of InfuSystem, a California corporation and wholly-owned subsidiary of I-Flow Corporation, or I-Flow, a Delaware corporation. Concurrently with Acquisition Sub's acquisition of all of the issued and outstanding capital stock of InfuSystem, Acquisition Sub will merge with and into InfuSystem with the result that InfuSystem will become a wholly-owned subsidiary of HAPC.

At this important meeting, you will be asked to consider and vote upon the following proposals:

the acquisition to approve the acquisition by Acquisition Sub of all of the issued and outstanding capital stock of InfuSystem pursuant to the Stock Purchase Agreement, dated as of September 29, 2006, by and among I-Flow, InfuSystem, HAPC and Acquisition Sub ( "Proposal 1" );

the stock incentive plan proposal to approve the adoption of the HAPC 2006 Stock Incentive Plan (the "Plan" ) pursuant to which HAPC will reserve up to 2,000,000 shares of common stock for issuance pursuant to the Plan ( "Proposal 2" );

the amendment to the certificate of incorporation proposal to approve an amendment to HAPC's amended and restated certificate of incorporation to change HAPC's name from HAPC, INC. to InfuSystem Holdings, Inc. ( "Proposal 3" ); and

to transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The Board of Directors of HAPC has fixed the close of business on \_\_\_\_\_, 2006, as the record date (the "Record Date" ) for the determination of stockholders entitled to notice of and to vote at the Special Meeting and at any adjournment thereof. A list of stockholders entitled to vote as of the Record Date at the Special Meeting will be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours for a period of ten calendar days before the Special Meeting at HAPC's offices at 350 Madison Avenue, 20th Floor, New York, New York 10017, and at the time and place of the meeting during the duration of the meeting.

Adoption of each proposal will require the following vote:

For purposes of Proposal 1, the affirmative vote of a majority of the shares outstanding as of the Record Date of HAPC's common stock that were issued in HAPC's initial public offering, including shares subsequently purchased in the open market, that are present in person or by proxy at the Special Meeting and that vote on the proposal, *provided* less than 20% of the shares of HAPC's common

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stock issued in HAPC's initial public offering vote against the acquisition proposal and elect a cash conversion of their shares as described below.

For purposes of Proposal 2, the affirmative vote of a majority of the shares of HAPC's common stock issued and outstanding as of the Record Date that are present in person or by proxy at the Special Meeting.

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For purposes of Proposal 3, the affirmative vote of a majority of the shares of HAPC's common stock issued and outstanding as of the Record Date.

Each of Proposals 2 and 3 is conditioned upon the approval of Proposal 1 and, in the event Proposal 1 does not receive the necessary vote for approval, then HAPC will not complete any of the transactions specified in the others. If, however, Proposal 1 is approved and either Proposal 2 or 3 is not, HAPC will still consummate the acquisition.

In the event that the acquisition of InfuSystem is not undertaken, HAPC must complete an alternative 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, which occurred on April 18, 2006 (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). It is likely that HAPC will have insufficient time and resources to complete an alternative business combination within this time period and HAPC will most likely have to liquidate after April 18, 2008 (or October 18, 2007 if no agreement is entered into).

Each HAPC stockholder who holds shares of common stock issued in HAPC's initial public offering, or purchased following such offering in the open market, has the right to vote against the acquisition proposal and, at the same time, demand that HAPC convert such stockholder's shares into 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 HAPC's initial public offering have been deposited. As of October 31, 2006, this amount was equal to \$5.81 per share, less income taxes owed on accrued interest. If the acquisition is not completed, your shares will not be converted to cash at this time, even if you so elected. If the holders of 3,375,050 or more shares of common stock issued in HAPC's initial public offering, an amount equal to 20% or more of the total number of shares issued in the initial public offering, vote against the acquisition and demand conversion of their shares into a pro rata portion of the trust account, then HAPC will not be able to consummate the acquisition.

HAPC's shares of common stock, warrants and units consisting of one share of common stock and two warrants trade on the OTC Bulletin Board under the symbols HAPN.OB, HAPNW.OB and HAPNU.OB, respectively.

After careful consideration of the terms and conditions of the proposed acquisition of InfuSystem, the adoption of the Plan and the amendment to the amended and restated certificate of incorporation, the Board of Directors of HAPC has determined that such proposals and the transactions contemplated thereby are fair to and in the best interests of HAPC and its stockholders. In connection with the acquisition proposal, the Board of Directors of HAPC has received an opinion from BNY Capital Markets, Inc., to the effect that as of September 29, 2006, the date the Stock Purchase Agreement was entered into, based upon conditions that existed as of that date, and subject to the considerations described in its opinion and based upon such other matters as BNY Capital Markets, Inc. considered relevant, the consideration to be paid by HAPC in the acquisition pursuant to the Stock Purchase Agreement is fair to HAPC from a financial point of view. **The Board of Directors of HAPC unanimously recommends that you vote or give instruction to vote (i) FOR the proposal to acquire all of the issued and outstanding capital stock of InfuSystem pursuant to the Stock Purchase Agreement by and among InfuSystem, I-Flow, Acquisition Sub and HAPC; (ii) FOR the proposal to adopt the Plan; and (iii) FOR the proposal to approve an amendment to the amended and restated certificate of incorporation to change HAPC's corporate name, all as described in Proposals 1, 2, and 3, respectively.**

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Enclosed is a Notice of Special Meeting and Proxy Statement containing detailed information concerning the acquisition, adoption of the Plan and amendment to the amended and restated certificate of incorporation. Whether or not you plan to attend the Special Meeting, we urge you to read this material carefully. I look forward to seeing you at the meeting.

Sincerely,

John Voris

Chief Executive Officer

**YOUR VOTE IS IMPORTANT. WHETHER YOU PLAN TO ATTEND THE SPECIAL MEETING OR NOT, PLEASE SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD AS SOON AS POSSIBLE IN THE ENVELOPE PROVIDED. IF YOU SIGN AND RETURN THE PROXY CARD, BUT DO NOT GIVE INSTRUCTIONS ON HOW TO VOTE YOUR SHARES, YOUR SHARES WILL BE VOTED, AS RECOMMENDED BY THE HAPC BOARD OF DIRECTORS, FOR THE APPROVAL OF THE ACQUISITION PROPOSAL, FOR THE APPROVAL OF THE STOCK INCENTIVE PLAN PROPOSAL AND FOR APPROVAL OF THE AMENDMENT TO THE AMENDED AND RESTATED CERTIFICATE OF INCORPORATION PROPOSAL.**

**SEE THE SECTION TITLED RISK FACTORS BEGINNING ON PAGE 15 FOR A DISCUSSION OF VARIOUS FACTORS THAT YOU SHOULD CONSIDER IN CONNECTION WITH THE ACQUISITION OF INFUSYSTEM SINCE, UPON HAPC S ACQUISITION OF INFUSYSTEM, THE OPERATIONS AND ASSETS OF HAPC WILL LARGELY BE THOSE OF INFUSYSTEM.**

**THIS PROXY STATEMENT IS DATED \_\_\_\_\_, 2006, AND IS FIRST BEING MAILED TO HAPC STOCKHOLDERS ON OR ABOUT \_\_\_\_\_, 2006.**

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**HAPC, INC.**

**350 Madison Avenue, 20th Floor**

**New York, New York 10017**

**(212) 418-5070**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON \_\_\_\_\_, 2006**

TO THE STOCKHOLDERS OF HAPC, INC.:

Notice is hereby given that a special meeting of stockholders, including any adjournments or postponements thereof, of HAPC, INC., or HAPC, a Delaware corporation, will be held at \_\_\_\_\_ a.m. Eastern Time, on \_\_\_\_\_, 2006, at the offices of \_\_\_\_\_ for the following purposes:

the acquisition proposal to approve the acquisition by Iceland Acquisition Subsidiary, Inc. or Acquisition Sub, a Delaware corporation and wholly-owned subsidiary of HAPC, of all of the issued and outstanding capital stock of InfuSystem, Inc. or InfuSystem, a California corporation and wholly-owned subsidiary of I-Flow Corporation or I-Flow, a Delaware corporation, pursuant to the Stock Purchase Agreement, dated as of September 29, 2006, by and among I-Flow, InfuSystem, HAPC and Acquisition Sub ( Proposal 1 );

the stock incentive plan proposal to approve the adoption of the HAPC 2006 Stock Incentive Plan (the Plan ) pursuant to which HAPC will reserve up to 2,000,000 shares of common stock for issuance pursuant to the Plan ( Proposal 2 );

the amendment to the certificate of incorporation proposal to approve an amendment to HAPC s amended and restated certificate of incorporation, to change HAPC s name from HAPC, INC. to InfuSystem Holdings, Inc. ( Proposal 3 ); and

to consider and vote upon such other business as may properly come before the meeting or any adjournment or postponement thereof.

The Board of Directors of HAPC has fixed the close of business on \_\_\_\_\_, 2006 as the date for which HAPC stockholders are entitled to receive notice of, and to vote at, the special meeting and any adjournments or postponements thereof. Only the holders of record of HAPC common stock on that date are entitled to have their votes counted at the special meeting and any adjournments or postponements thereof.

HAPC will not transact any other business at the special meeting, except for business properly brought before the special meeting, or any adjournment or postponement thereof, by HAPC s Board of Directors.

Your vote is important. Please sign, date and return your proxy card as soon as possible to make sure that your shares are represented at the special meeting. If you are a stockholder of record of HAPC common stock, you may also cast your vote in person at the special meeting. If your shares are held in an account at a brokerage firm or bank, you must instruct your broker or bank on how to vote your shares.

**The Board of Directors of HAPC unanimously recommends that you vote FOR Proposal 1, the acquisition proposal, FOR Proposal 2, the stock incentive plan proposal and FOR Proposal 3, the amendment to the certificate of incorporation proposal.**

By Order of the Board of Directors,



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Pat LaVecchia  
Secretary

, 2006

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**SUMMARY OF THE MATERIAL TERMS OF THE ACQUISITION**

The parties to the Stock Purchase Agreement are HAPC, INC., I-Flow Corporation, Iceland Acquisition Subsidiary, Inc. and InfuSystem, Inc. See the section entitled Proposal No. 1 The Acquisition Proposal .

InfuSystem is one of the largest providers of ambulatory infusion pump management services for oncologists and their patients in the United States. Its principal offices are located in Madison Heights, Michigan. See the section entitled Business of InfuSystem .

At the closing of the acquisition, HAPC's wholly-owned subsidiary, Iceland Acquisition Subsidiary, Inc. or Acquisition Sub, will acquire all of the issued and outstanding capital stock of InfuSystem from I-Flow. Concurrently with the closing of the acquisition, Acquisition Sub will merge with and into InfuSystem and cease to exist as an independent entity. As the entity surviving the merger, InfuSystem will continue its corporate existence under the laws of the State of California as a wholly-owned subsidiary of HAPC. See the section entitled The Stock Purchase Agreement .

At the closing, I-Flow will be paid an aggregate of \$140,000,000 (subject to certain working capital adjustments to be determined at the time of closing) in cash or a combination of cash and a secured promissory note in an amount of up to \$75,000,000 for all of the outstanding capital stock of InfuSystem. The actual amount of the promissory note will range from \$55,000,000 to \$75,000,000 depending upon the number of HAPC stockholders who exercise their conversion rights as described herein. See the section entitled The Stock Purchase Agreement .

The acquisition of all of the issued and outstanding capital stock of InfuSystem by Acquisition Sub cannot be completed unless the holders as of , 2006 of at least a majority of the shares of HAPC's common stock issued in HAPC's initial public offering, including shares subsequently purchased in the open market, that are present in person or by proxy and entitled to vote at the special meeting and that vote on the proposal, approve the acquisition, provided less than 20% of the shares of HAPC's common stock issued in HAPC's initial public offering vote against the acquisition proposal and elect a cash conversion of their shares. See the section entitled Proposal No. 1 The Acquisition Proposal .

In the event that the Stock Purchase Agreement is terminated by I-Flow (i) because of HAPC's failure to obtain the necessary approval of the acquisition by the HAPC stockholders (as described in the Stock Purchase Agreement) by April 30, 2007 or (ii) because HAPC is unwilling or unable to consummate the transactions contemplated by the Stock Purchase Agreement notwithstanding the fact all conditions precedent to the Stock Purchase Agreement have been satisfied or are capable of fulfillment, HAPC will pay I-Flow a break up fee. The fee is \$1,000,000 in the case of I-Flow's termination due to HAPC's failure to hold the special meeting by April 30, 2007 to obtain the HAPC stockholders' approval of the acquisition, and \$3,000,000 in all other cases where a break up fee is payable. See the section entitled The Stock Purchase Agreement .

Payment of the break up fee has been guaranteed to I-Flow by Messrs. Sean D. McDevitt and Philip B. Harris. Mr. McDevitt is Chairman of HAPC. See the section entitled The Stock Purchase Agreement . Messrs. McDevitt and Harris have applied to JPMorgan Chase Bank to issue a letter of credit for the benefit of I-Flow which I-Flow may draw upon in the event that the \$1,000,000 or \$3,000,000 break up fee, as the case may be, is not paid when due and payable. Messrs. McDevitt and Harris will deliver the letter of credit to I-Flow once it has been issued by JPMorgan Chase Bank.

In addition to voting on the acquisition proposal, the stockholders of HAPC will vote on proposals to approve the HAPC 2006 Incentive Stock Plan and to amend HAPC's amended and restated certificate of incorporation to change HAPC's corporate name to InfuSystem Holdings, Inc. See sections Proposal No. 2 The Stock Incentive Plan Proposal and Proposal No. 3 Amendment to Certificate of Incorporation Proposal .



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**PROXY STATEMENT FOR SPECIAL MEETING OF STOCKHOLDERS OF HAPC, INC.**

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The Board of Directors of HAPC, INC has unanimously adopted and approved the Stock Purchase Agreement, dated September 29, 2006, by and among I-Flow Corporation, InfuSystem, Inc., a wholly-owned subsidiary of I-Flow, HAPC and Iceland Acquisition Subsidiary, Inc., a wholly-owned subsidiary of HAPC, referred to as Acquisition Sub, pursuant to which Acquisition Sub will acquire all of the issued and outstanding capital stock of InfuSystem and concurrently merge with and into InfuSystem. The consideration to be paid will be \$140,000,000 in the form of cash and a promissory note issued to I-Flow in an amount of up to \$75,000,000. The actual amount of the promissory note will range from \$55,000,000 to \$75,000,000 depending upon the number of HAPC stockholders who exercise their conversion rights as described in this Proxy Statement. The Board of Directors of Acquisition Sub has unanimously adopted and approved the Stock Purchase Agreement and the transactions contemplated thereby. If the acquisition proposal is not approved, then the acquisition will not be consummated. In such an event, it is likely that HAPC will have insufficient time and resources to pursue an alternative acquisition target and in such an event HAPC will most likely be forced to liquidate after April 18, 2008.

If the acquisition is completed and you vote your shares for the acquisition proposal, you will continue to hold the HAPC securities that you currently own. If the acquisition is completed but you have voted your shares against the acquisition proposal and have elected a cash conversion instead, your HAPC shares will be cancelled and you will receive cash equal to a pro rata portion of the trust account, including interest, which, as of October 31, 2006, was equal to approximately \$5.81 per share, less income taxes owed on accrued interest.

HAPC's shares of common stock, warrants and units consisting of one share of common stock and two warrants trade on the OTC Bulletin Board under the symbols HAPN.OB, HAPNW.OB and HAPNU.OB, respectively. Upon consummation of the acquisition, all of the issued and outstanding capital stock of InfuSystem will be held by HAPC, and, assuming the proposal to amend HAPC's certificate of incorporation is approved, HAPC's name will be changed to InfuSystem Holdings, Inc. HAPC's common stock, warrants and units will continue to be traded on the OTC Bulletin Board although we anticipate seeking to change our trading symbols.

We believe that, generally, for U.S. federal income tax purposes, the acquisition of all of the issued and outstanding capital stock of InfuSystem by Acquisition Sub and the concurrent merger of Acquisition Sub with and into InfuSystem will have no direct tax effect on stockholders of HAPC. However, if you vote against the acquisition proposal and elect a cash conversion of your shares of HAPC common stock into your pro rata portion of the trust account and as a result receive cash in exchange for your HAPC shares, there may be certain tax consequences, such as realizing a loss on your investment in HAPC's shares. **WE URGE YOU TO CONSULT YOUR OWN TAX ADVISORS REGARDING YOUR PARTICULAR TAX CONSEQUENCES.**

This Proxy Statement provides you with detailed information about the acquisition, the proposed stock incentive plan, the amendment to the certificate of incorporation and the special meeting of stockholders. We encourage you to carefully read this entire document, including the Stock Purchase Agreement, the HAPC 2006 Stock Incentive Plan and the fairness opinion of the BNY Capital Markets, Inc. attached hereto as Annexes A, B and C, respectively. **YOU SHOULD ALSO CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 15.**

The acquisition of InfuSystem cannot be completed unless holders as of \_\_\_\_\_, 2006 of at least a majority of the shares of HAPC's common stock issued in HAPC's initial public offering, including shares subsequently purchased in the open market, that are present in person or by proxy and entitled to vote at the special meeting and that vote on the proposal, approve the acquisition, provided less than 20% of the shares of HAPC's common stock issued in HAPC's initial public offering vote against the acquisition proposal and elect a cash conversion of their shares.

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**Your Board of Directors unanimously approved and declared advisable the acquisition of InfuSystem, adoption of the HAPC 2006 Stock Incentive Plan and the amendment to the amended and restated certificate of incorporation and unanimously recommends that you vote or instruct your vote to be cast FOR Proposal 1, the acquisition proposal, FOR Proposal 2, the stock incentive plan proposal and FOR Proposal 3, the amendment to the certificate of incorporation proposal.**

We are soliciting the enclosed proxy card on behalf of the Board of Directors, and we will pay all costs of preparing, assembling and mailing the proxy materials. In addition to mailing out proxy materials, our officers may solicit proxies by telephone or fax, without receiving any additional compensation for their services. We have requested brokers, banks and other fiduciaries to forward proxy materials to the beneficial owners of our stock.

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**QUESTIONS AND ANSWERS ABOUT THE PROPOSALS**

**What is being voted on?**

There are three proposals on which you are being asked to vote. The first proposal is to approve the acquisition of all of the issued and outstanding capital stock of InfuSystem, Inc. a wholly-owned subsidiary of I-Flow Corporation, pursuant to a stock purchase agreement whereby Acquisition Sub will purchase from I-Flow all of the issued and outstanding capital stock of InfuSystem. Concurrently with Acquisition Sub's acquisition of all of the issued and outstanding capital stock of InfuSystem, 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, as a wholly-owned subsidiary of HAPC. As consideration for such acquisition and as further described herein, I-Flow will receive an aggregate of \$140,000,000 (subject to certain working capital adjustments to be determined as of the time of closing). The consideration to I-Flow will be in the form of cash and a promissory note in an amount of up to \$75,000,000 (the

Promissory Note ). The actual amount of the Promissory Note will range from \$55,000,000 to \$75,000,000 depending upon the number of HAPC stockholders who exercise their conversion rights as described in this proxy statement. Following the acquisition and merger, HAPC will own all of the issued and outstanding capital stock of InfuSystem. This proposal is referred to as the acquisition proposal. The second proposal is to approve the adoption of the HAPC 2006 Stock Incentive Plan, or the Plan, pursuant to which 2,000,000 of shares of HAPC common stock will be reserved for issuance in accordance with the terms of the Plan. The third proposal is to approve an amendment to HAPC's certificate of incorporation to change HAPC's name to InfuSystem Holdings, Inc. after the acquisition.

**Why is HAPC proposing the acquisition, the adoption of a stock incentive plan and amendment to HAPC's certificate of incorporation?**

HAPC was formed specifically 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. The initial business combination entered into by HAPC 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. In the course of HAPC's search for a business combination partner, HAPC was introduced to InfuSystem, a company the Board of Directors of HAPC determined meets the criteria for acquisition. Specifically, these criteria include strong growth and profit margins, significant market share and a committed management team with a successful track record. HAPC believes that InfuSystem possesses each of these characteristics and that it will provide HAPC stockholders with an opportunity to acquire a company with significant growth potential. The adoption of the Plan is being undertaken because the Board of Directors of HAPC deems it beneficial for HAPC to have a means to incentivize management following the acquisition. The amendment to the certificate of incorporation is being undertaken because HAPC management desires the name of the business to reflect its operations.

**What vote is required in order to approve the acquisition proposal?**

The approval for the acquisition of InfuSystem will require the affirmative vote of a majority of the shares outstanding as of the record date of HAPC's common stock that were issued in HAPC's initial public offering, including shares that were subsequently purchased in the open market, that are present in person or by proxy at the meeting and that vote on the proposal. In addition, each HAPC stockholder who holds shares of common stock issued in HAPC's initial public offering or purchased following such offering in the open market has the right to vote against the acquisition proposal and, at the same time, demand that HAPC convert such stockholder's shares into cash equal to a pro rata portion of the trust account, including interest, in which a substantial portion of the net proceeds of HAPC's initial public offering is deposited. These shares will be converted into cash only if the acquisition is completed. Based upon the amount of cash held in the trust account as of October 31, 2006, without taking into account any interest accrued after such date, stockholders who vote against the acquisition proposal and elect to convert their shares as described above will be entitled to convert each share of common stock that they hold into approximately \$5.81 per share, less income taxes owed on

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accrued interest. However, if the holders of 3,375,050 or more shares of common stock issued in HAPC's initial public offering (an amount equal to 20% or more of the total number of shares issued in the initial public offering), vote against the acquisition and demand conversion of their shares into a pro rata portion of the trust account, then HAPC will not be able to consummate the acquisition. The officers and directors of HAPC intend to vote all of their shares of common stock in favor of this proposal.

### **What vote is required in order to approve the stock incentive plan proposal?**

The approval of the adoption of the Plan will require the affirmative vote of a majority of the shares of HAPC's common stock issued and outstanding as of the Record Date that are present in person or by proxy at the special meeting. The officers and directors of HAPC intend to vote all of their shares of common stock in favor of this proposal.

### **What vote is required in order to approve the amendment to the certificate of incorporation?**

The approval of the amendment to the certificate of incorporation will require the affirmative vote of a majority of the shares of HAPC's common stock issued and outstanding as of the Record Date. The officers and directors of HAPC intend to vote all of their shares of common stock in favor of this proposal.

### **If I am not going to attend the HAPC special meeting of stockholders in person, should I return my proxy card instead?**

Yes. After carefully reading and considering the information contained in this proxy statement, please complete and sign your proxy card. Then return the enclosed proxy card in the return envelope provided herewith as soon as possible, so that your shares may be represented at the HAPC special meeting.

### **What will happen if I abstain from voting or fail to vote?**

An abstention with respect to the acquisition proposal will have no effect since the acquisition proposal requires the affirmative vote of a majority of the votes cast by holders of eligible shares. An abstention with respect to Proposal 2 or 3 will have the same effect as a vote against such proposal, since it is not an affirmative vote in favor of the respective proposal but will be included in the determination of the number of shares present in person or by proxy.

A failure to vote will have no impact upon the approval of Proposals 1 or 2 and will have the same effect as a vote against Proposal 3. Failure to vote will not have the effect of converting your shares into a pro rata portion of the trust account.

### **What do I do if I want to change my vote?**

If you wish to change your vote, please send a later-dated, signed proxy card to the Secretary at HAPC prior to the date of the special meeting or attend the special meeting and vote in person. You also may revoke your proxy by sending a notice of revocation to the Secretary at the address of HAPC's corporate headquarters, provided such revocation is received prior to the special meeting.

### **If my shares are held in street name by my broker, will my broker vote my shares for me?**

No. Your broker can vote your shares only if you provide instructions on how to vote. You should instruct your broker to vote your shares in accordance with directions you provided to your broker.

### **Will I receive anything in the acquisition?**

If the acquisition is completed and you vote your shares for the acquisition proposal, you will continue to hold the HAPC securities that you currently own. If the acquisition is completed but you have voted your shares



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against the acquisition proposal and have elected a cash conversion instead, your HAPC shares will be cancelled and you will receive cash equal to a pro rata portion of the trust account, including interest, which, as of October 31, 2006, was equal to approximately \$5.81 per share, less income taxes owed on accrued interest.

**How is HAPC paying for the acquisition?**

The Stock Purchase Agreement provides that I-Flow will receive as consideration cash or a combination of cash and a promissory note in an amount of up to \$75,000,000. The amount of the note will range from \$55,000,000 to \$75,000,000 depending upon the number of HAPC stockholders who exercise their conversion rights. The amount of the total consideration of \$140,000,000, subject to adjustments for working capital to be determined at the time of closing, less the amount of the promissory note will be paid by HAPC to I-Flow in cash.

**Do I have conversion rights in connection with the acquisition?**

If you hold shares of common stock issued in HAPC's initial public offering, then you have the right to vote against the acquisition proposal and demand that HAPC convert your shares of common stock into a pro rata portion of the trust account in which a substantial portion of the net proceeds of HAPC's initial public offering are held. These rights to vote against the acquisition and demand conversion of the shares into a pro rata portion of the trust account are sometimes referred to herein as conversion rights.

**If I have conversion rights, how do I exercise them?**

If you wish to exercise your conversion rights, you must vote against the acquisition and, at the same time, demand that HAPC convert your shares into cash. If, notwithstanding your vote, the acquisition is completed, then you will be entitled to receive a pro rata share of the trust account, in which a substantial portion of the net proceeds of HAPC's initial public offering are held, including any interest earned thereon through the date of the special meeting. Based upon the amount of cash held in the trust account as of October 31, 2006, without taking into account any interest accrued after such date, you will be entitled to convert each share of common stock that you hold into approximately \$5.81 per share, less income taxes owed on accrued interest. If you exercise your conversion rights, then you will be exchanging your shares of HAPC common stock for cash and will no longer own these shares of common stock. You will only be entitled to receive cash for these shares if you continue to hold these shares through the closing date of the acquisition and then tender your stock certificate to HAPC. If you convert your shares of common stock, you will still have the right to exercise the warrants received as part of the units in accordance with the terms thereof. If the acquisition is not completed, then your shares will not be converted to cash at this time, even if you so elected. See section Summary Conversion Rights .

**What happens to the funds deposited in the trust account after completion of the acquisition?**

Upon completion of the acquisition, any funds remaining in the trust account after payment of amounts, if any, to stockholders requesting and exercising their conversion rights, will be released from trust and used to fund the acquisition and for general corporate purposes.

**Who will manage HAPC upon completion of the acquisition of InfuSystem?**

Pursuant to the terms of an employment agreement under negotiation between HAPC 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 HAPC's Board of Directors. At the time the acquisition is completed, HAPC intends 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 HAPC in capacities similar to their roles with respect to InfuSystem.

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**What happens if the acquisition is not consummated?**

If the acquisition is not consummated, HAPC will continue to search for a service business to acquire. However, HAPC will be liquidated in accordance with the terms of its amended and restated certificate of incorporation if (i) it does not consummate a business combination by October 18, 2007 or (ii) a definitive agreement is executed, but not consummated, by October 18, 2007, then by April 18, 2008 (24 months after the consummation of its initial public offering). In any liquidation, the net proceeds of HAPC's initial public offering held in the trust account, plus any interest earned thereon, will be distributed on a pro rata basis to the holders of HAPC's common stock. In the event the acquisition of InfuSystem is not consummated, it is likely that HAPC will have insufficient time and resources to complete an alternative business combination and will most likely have to liquidate after April 18, 2008 (or October 18, 2007 if no agreement is entered into).

**When do you expect the proposals to be completed?**

It is currently anticipated that the transactions and actions contemplated in the proposals will be completed simultaneously as promptly as practicable following the HAPC special meeting of stockholders to be held on \_\_\_\_\_, 2006.

**Who can help answer my questions?**

If you have questions about any of the proposals, you may write or call HAPC, Inc. at 350 Madison Avenue, 20th Floor, New York, New York 10017, Attn: Pat LaVecchia, Secretary, (212) 418-5070.

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**SUMMARY**

This summary is being provided with respect to each of the proposals, although the acquisition is the primary reason for the calling of the special stockholders meeting. All of the proposals are described in detail elsewhere in this proxy statement and this summary discusses the material items of each of the proposals. You should carefully read this entire proxy statement and the other documents to which this proxy statement refers you. See, *Where You Can Find More Information*.

***Proposal 1 Acquisition Proposal***

***InfuSystem, Inc.***

InfuSystem is one of the largest providers of ambulatory infusion pump management services for oncologists and their patients in the United States. InfuSystem supplies electronic ambulatory infusion pumps and assorted disposable supply kits and provides billing and collection services for these items to approximately 1,550 physician practices in United States. The pumps are currently used primarily for the continuous infusion of chemotherapy drugs for patients with colorectal cancer.

***Continuous Infusion Therapy***

Continuous infusion therapy involves the gradual administration of a drug via a small, lightweight, portable pump over two to seven days, followed by rest periods and additional cycles. This is an alternative to traditional bolus chemotherapy, where patients receive higher doses of drugs over the course of minutes to several hours, administered in the physician's office or the hospital. Continuous infusion of chemotherapy through ambulatory pumps is increasingly being utilized by oncologists as a preferred treatment for patients with colorectal cancer. InfuSystem believes the growth of continuous infusion therapy is driven by three factors: superior clinical outcomes, enhanced patient convenience and comfort and recent changes to physician reimbursement.

In 2004, two new protocols were approved by the U.S. Food and Drug Administration ( FDA ) for treatment of colorectal cancer: FOLFOX (by Sanofi-Aventis S.A.) and FOLFIRI (by Pfizer Inc.). These treatment regimens, which combine older medications such as 5-Fluorouracil and Leucovorin with newer drugs, have been shown in studies to produce better anti-tumor efficacy, longer patient survival, reduced drug toxicities and improved therapy tolerance. Sanofi-Aventis and Pfizer are each dedicating significant resources to educate physicians and promote the use of these protocols. Oncologists have responded and the adoption of continuous infusion treatments has grown rapidly over the past two years.

Continuous infusion therapy through ambulatory pumps allows patients to undergo therapy in the comfort and convenience of their homes and enables them to continue with many of their daily activities. In bolus chemotherapy, patients are given large doses of drugs over a short period of time which can often lead to nausea, vomiting, diarrhea and decreased white blood cell and platelet counts. In contrast, continuous infusion therapy involves the delivery of smaller doses over a longer period of time (two to seven days), leading to improved tolerance and patient comfort. Importantly, this can enhance a patient's ability to remain on the chemotherapy regimen.

The Medicare Modernization Act of 2003 reduced levels of Medicare reimbursement for oncology drugs administered in the physician office setting. To offset this reduction, Medicare increased the service fees paid to oncologists. InfuSystem believes that this has resulted in doctors shifting to treatments that provide superior efficacy and patient satisfaction while optimizing their potential to earn service fees.

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### *Products and Services*

InfuSystem's core service is to provide oncologist offices with ambulatory infusion pumps and related supplies and to directly bill and collect payment from payors for the use of these pumps. InfuSystem owns approximately 14,000 pumps.

After a doctor determines that a patient is eligible for ambulatory infusion pump therapy, the doctor arranges for the patient to receive an infusion pump and provides the necessary chemotherapy drugs. The oncologist and nursing staff train the patient in the use of the pump and initiate service. The physician bills insurers, Medicare or Medicaid (collectively, payors) for the physician's professional services associated with initiating and supervising the infusion pump administration, as well as the supply of drugs. InfuSystem directly bills payors for the use of the pump and related disposable supplies. InfuSystem has contracts with more than 100 payors that cover more than 125 million managed care lives.

In addition to providing high quality and convenient care, InfuSystem believes its pump management program offers significant economic benefits for patients, providers and payors.

InfuSystem benefits patients by providing high quality, reliable pumps and accessories as well as 24-hour service and support. InfuSystem employs oncology and intravenous certified registered nurses trained on ambulatory infusion pump equipment who staff InfuSystem's 24-hour hotline to address questions that patients may have about their treatment, the infusion pumps or other medical or technical questions related to the pumps.

Physicians benefit from InfuSystem's service in several ways. For those physicians providing their own pumps to patients, InfuSystem relieves them of the capital commitment, pump service and maintenance and billing and administrative burden. Rather than referring patients to home care, InfuSystem's service allows the doctor to continue a direct relationship with the patient and to receive professional service fees for setting up treatment and administering drugs.

Payors support InfuSystem because its service is generally less expensive than hospitalization or home care.

### *Relationships with Physician Offices*

Through its 17 person sales force, InfuSystem maintains relationships with clinical oncologists in more than 1,550 practices. Though this represents a substantial portion of the oncology practices in the United States, in many cases only some of the physicians in the practice utilize InfuSystem's services. InfuSystem believes it can continue to add new physician relationships within these practices, as well as expand its network to further penetrate the oncology market. Over the past three years, InfuSystem has added approximately 450 new accounts to its services. InfuSystem's relationships with physicians are strong, as evidenced by its significant renewal rate.

InfuSystem believes that, in general, it does not compete directly with hospitals and physician offices to treat patients. Rather, by providing products and services to hospitals and physician offices and other care facilities and providers, InfuSystem believes it can help providers keep up with increasing patient demand and manage institutional restraints on capital and manpower due to the nature of limited resources in hospitals and physician offices.

### *Additional Markets*

In addition to treatments for colorectal cancer, there are a number of approved drugs and drugs in the development pipeline that InfuSystem believes could potentially be used in continuous infusion protocols for the treatment of other diseases. Approved drugs include those for cancers such as head and neck, breast, lung,

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leukemia and stomach. InfuSystem currently generates approximately 15% of its revenue from treatments for these diseases. Drugs currently in clinical trials may also be launched over the next several years. If these new drugs are launched with continuous infusion protocols, InfuSystem expects the pharmaceutical companies to focus their sales and marketing forces on promoting the new drugs and protocols to physicians.

### *Billing Collection Services*

As part of its relationship with I-Flow, InfuSystem provides billing and collection services for I-Flow's On-Q pain management product. InfuSystem has agreed to continue to provide this service to I-Flow for at least 18 months after the closing of the acquisition, subject to certain cancellation provisions. InfuSystem currently maintains a staff of 17 people to provide these services. I-Flow will compensate InfuSystem for its direct costs and provides InfuSystem with an incentive based reimbursement arrangement.

### *Principal Executive Office*

The principal executive office of InfuSystem is located at 1551 East Lincoln Avenue, Suite 200, Madison Heights, Michigan 48071.

## **The Acquisition**

The Stock Purchase Agreement provides for the acquisition by Acquisition Sub of all of the issued and outstanding capital stock of InfuSystem from I-Flow. Concurrently with Acquisition Sub's acquisition of all of the issued and outstanding capital stock of InfuSystem, 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 Stock Purchase Agreement was executed on September 29, 2006. Following completion of the acquisition and merger, all of the issued and outstanding capital stock of InfuSystem will be held by HAPC. At the closing, I-Flow will be paid an aggregate of \$140,000,000 (subject to certain working capital adjustments to be determined at the time of closing) in cash or a combination of cash and a secured promissory note (the Promissory Note) in an amount of up to \$75,000,000 for all of the outstanding capital stock of InfuSystem. The actual amount of the Promissory Note will range from \$55,000,000 to \$75,000,000 depending upon the number of HAPC stockholders who exercise their conversion rights as described in this proxy statement.

InfuSystem, I-Flow and HAPC plan to complete the acquisition as promptly as practicable after the HAPC special meeting, provided that:

HAPC's stockholders have approved the Stock Purchase Agreement, and holders of less than 20% of the shares of common stock issued in HAPC's initial public offering vote against the acquisition proposal and demand conversion of their shares into cash; and

the other conditions specified in the Stock Purchase Agreement have been satisfied or waived.

The Stock Purchase Agreement is included as Annex A to this proxy statement. We encourage you to read the Stock Purchase Agreement in its entirety. See Stock Purchase Agreement.

## **Terms of Promissory Note**

The Promissory Note will be issued by Acquisition Sub simultaneously with its merger with and into InfuSystem and as a result, will become the obligation of InfuSystem as the entity surviving the merger. HAPC will guarantee InfuSystem's obligations under the Promissory Note. The Promissory Note will mature four years after the closing of the acquisition and bear interest at a floating rate equal to LIBOR plus 5.5% or the Base rate

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plus 4.5% calculated on a 360 day basis; provided, however, that LIBOR shall be no less than 3% and the Base rate no less than 4%. The Promissory Note will be subject to prepayment premiums and, under certain circumstances, will be subject to mandatory prepayment. InfuSystem and HAPC will make certain representations, warranties and covenants to I-Flow that are usual and customary for transactions of this type. The Promissory Note will be secured by all of the assets of InfuSystem and HAPC.

The occurrence of the following events, among others, will constitute a default under the Promissory Note: (i) failure to pay when due any principal, interest, premium or fees; (ii) failure to comply with the covenants and other agreements in the Promissory Note; (iii) material breach of a representation of warranty; (iv) liquidation, bankruptcy or reorganization of InfuSystem or HAPC; or (v) the impairment of any of the collateral pledged by InfuSystem and HAPC as security for the Promissory Note. In the event of a default, the applicable interest rate of the Promissory Note will be increased by 2%.

In connection with I-Flow's commitment to accept the Promissory Note, HAPC paid a \$100,000 delivery fee to I-Flow on October 4, 2006. HAPC must also pay I-Flow a Ticking Fee (between 0.50% and 1.0% per annum of the maximum principal amount of the Promissory Note which is \$75,000,000) from September 29, 2006, the date that the Stock Purchase Agreement was executed, until the earlier of the closing of the acquisition 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. The Promissory Note will be subject to a facility fee equal to 2.50% of the actual principal amount payable at closing. Additionally, InfuSystem will pay I-Flow an administrative fee of \$75,000 at the closing and on each anniversary of the closing for the term of the Promissory Note.

**The actual amount of the Promissory Note will range from \$55,000,000 to \$75,000,000 depending upon the number of HAPC stockholders who exercise their conversion rights as described in this proxy statement.**

### **Conversion Rights**

Pursuant to HAPC's amended and restated certificate of incorporation, a holder of shares of HAPC's common stock issued in the initial public offering may, if the stockholder votes against the acquisition, demand that HAPC convert such shares into cash. If properly demanded, HAPC will convert each share of common stock as to which such demand has been made into a pro rata portion of the trust account in which a substantial portion of the net proceeds of HAPC's initial public offering are held, plus all interest earned thereon. If you exercise your conversion rights, then you will be exchanging your shares of HAPC common stock for cash and will no longer own these shares. Based on the amount of cash held in the trust account as of October 31, 2006, without taking into account any interest accrued after such date, you will be entitled to convert each share of common stock that you hold into approximately \$5.81 per share, less income taxes owed on accrued interest. You will only be entitled to receive cash for these shares if you continue to hold these shares through the closing date of the acquisition and then tender your stock certificate to HAPC. If the acquisition is not completed, then these shares will not be converted into cash. If you convert your shares of common stock, you will still have the right to exercise the warrants received as part of the units in accordance with the terms thereof. If the acquisition is not completed, then your shares will not be converted to cash at this time, even if you so elected.

The acquisition will not be completed if the holders of 3,375,050 or more shares of common stock issued in HAPC's initial public offering, an amount equal to 20% or more of such shares, vote against the acquisition proposal and exercise their conversion rights.

### **Appraisal or Dissenters Rights**

No appraisal rights are available under the Delaware General Corporation Law for the stockholders of HAPC in connection with the proposals.

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### **Conditions to the Completion of the Acquisition**

The obligations of HAPC, Acquisition Sub, I-Flow and InfuSystem to complete the acquisition are subject to the satisfaction or waiver of specified conditions before completion of the acquisition, including the following:

*Conditions to HAPC's, Acquisition Sub's, I-Flow's and InfuSystem's obligations:*

the absence of any law preventing consummation of the acquisition; and

the receipt of all material consents of, registrations, declarations or filings with, any governmental entity legally required for the consummation of the acquisition.

*Conditions to HAPC's and Acquisition Sub's obligations:*

The obligation of HAPC and Acquisition Sub to complete the acquisition is further subject to the following conditions:

the representations and warranties made by I-Flow and InfuSystem that are qualified as to materiality must be true and correct, and those not qualified as to materiality must be true and correct in all material respects, both when made and as of the closing date of the acquisition, except representations and warranties that address matters as of another date, which must be true and correct as of such other date, and HAPC must have received a certificate from each of I-Flow and InfuSystem to that effect;

I-Flow and InfuSystem must have performed in all material respects all obligations required to be performed by each of them under the terms of the Stock Purchase Agreement;

HAPC and Acquisition Sub must have received all such documents as HAPC and Acquisition Sub may reasonably request evidencing the satisfaction of I-Flow's and InfuSystem's obligations under the terms of the Stock Purchase Agreement;

HAPC must have received the affirmative vote in favor of the acquisition by the holders of at least the majority of the number of shares of common stock that were issued in HAPC's public offering that vote on the proposal, provided, less than 20% of the shares of common stock issued in HAPC's initial public offering vote against the acquisition proposal and elect a cash conversion of their shares;

I-Flow must have obtained the consent of each person whose consent is required under certain material contracts to which InfuSystem is a party and provided evidence of such consents to HAPC;

I-Flow must have delivered to HAPC evidence of the release of all encumbrances (other than certain permitted encumbrances, including those created by HAPC or Acquisition Sub) with respect to the property and assets of InfuSystem and all of the issued and outstanding capital stock of InfuSystem;

I-Flow must have delivered to HAPC evidence of the repayment or release of all outstanding indebtedness of InfuSystem (other than certain permitted indebtedness);

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I-Flow must have delivered to HAPC evidence of the repayment or other cancellation of all liabilities owed by or to InfuSystem to or from I-Flow or any of its affiliates;

I-Flow must have delivered to HAPC or Acquisition Sub a certificate of the secretary of I-Flow dated as of the closing date and certifying that attached thereto are true and complete copies of all resolutions adopted by the Board of Directors of I-Flow authorizing the execution, delivery and performance of the Stock Purchase Agreement and that all such resolutions are in full force and effect and are all the resolutions adopted in connection with the transactions contemplated by the Stock Purchase Agreement;

I-Flow must have delivered to HAPC a duly completed and executed certification of non-foreign status pursuant to Section 1.1445-2(b)(2) of the Treasury regulations; and

I-Flow must have delivered to HAPC a duly completed and executed Form 8023, if requested by HAPC.



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*Conditions to I-Flow's and InfuSystem's Obligations:*

The obligation of I-Flow and InfuSystem to complete the acquisition is further subject to the following conditions:

the representations and warranties made by HAPC and Acquisition Sub that are qualified as to materiality must be true and correct, and those not qualified as to materiality must be true and correct in all material respects, both when made and as of the closing date of the acquisition, except representations and warranties that address matters as of another date, which must be true and correct as of such other date, and I-Flow must have received a certificate from each of HAPC and Acquisition Sub to that effect;

HAPC or Acquisition Sub must have delivered the purchase price of \$140,000,000 in cash (subject to certain working capital adjustments to be determined at the time of closing) or in a combination of cash and a promissory note to I-Flow;

HAPC must have executed and delivered to I-Flow a guaranty of amounts due under the promissory note;

I-Flow must have received an executed counterpart signature page by InfuSystem to each of the Amended and Restated Services Agreement and License Agreement (described herein); and

I-Flow must have received all such documents as I-Flow may reasonably request evidencing the satisfaction of HAPC's and Acquisition Sub's obligations under the terms of the Stock Purchase Agreement

**Termination**

*Termination by I-Flow or HAPC*

The Stock Purchase Agreement may be terminated at any time prior to the closing by mutual written consent of I-Flow or HAPC. Additionally, I-Flow or HAPC may terminate the Stock Purchase Agreement prior to closing if (i) the closing has not occurred by April 30, 2007 or (ii) any governmental authority issues an order, ruling or takes other action that prohibits the consummation of the transactions contemplated by the Stock Purchase Agreement.

*Termination by I-Flow*

I-Flow may terminate the Stock Purchase Agreement prior to the closing if (i) HAPC or Acquisition Sub breaches or fails to perform in any respect any of its representations, warranties or covenants contained in the Stock Purchase Agreement where such breach or failure to perform would result in a failure of a condition precedent to the closing, cannot be cured within 15 calendar days following delivery of written notice of such breach and such breach has not been waived by I-Flow or (ii) any of the conditions precedent to closing have become incapable of fulfillment.

*Termination by HAPC*

HAPC may terminate the Stock Purchase Agreement prior to the closing if (i) I-Flow or InfuSystem breaches or fails to perform in any respect any of its representations, warranties or covenants contained in the Stock Purchase Agreement, the Amended and Restated Services Agreement or License Agreement where such breach or failure to perform would result in a failure of a condition precedent to the closing, cannot be cured within 15 calendar days following delivery of written notice of such breach and such breach has not been waived by I-Flow or (ii) any of the conditions precedent to closing have become incapable of fulfillment.

**Table of Contents***Break-up Fee*

In the event that the Stock Purchase Agreement is terminated (i) because of HAPC's failure to obtain the stockholder approval required by the terms of the Stock Purchase Agreement ( 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.

**Guaranty**

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 Guaranty 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 applied to JPMorgan Chase Bank to issue a letter of credit for the benefit of I-Flow which I-Flow may draw upon in the event that the \$1,000,000 or \$3,000,000 break up fee, as the case may be, is not paid when due and payable. Messrs. McDevitt and Harris will deliver the letter of credit to I-Flow once it has been issued by JPMorgan Chase Bank.

**Interests of HAPC Directors and Officers in the Acquisition**

When you consider the recommendation of HAPC's Board of Directors that you vote in favor of the acquisition proposal, you should keep in mind that certain of HAPC's directors and officers have interests in the acquisition that are different from, or in addition to, your interests as a stockholder.

If the acquisition is not approved and HAPC fails to consummate an alternative transaction within the time allotted pursuant to its amended and restated certificate of incorporation, HAPC is required to liquidate, and the shares of common stock issued to HAPC's officers and directors prior to HAPC's initial public offering will be worthless because HAPC's executives and directors are not entitled to receive any of the net proceeds of HAPC's initial public offering that may be distributed upon liquidation of HAPC. Additionally, HAPC's officers and directors who acquired shares of HAPC common stock prior to HAPC's initial public offering at a value of \$4.82 per share will benefit if the acquisition is approved.

The table below shows the amount of the shares owned by the officers and directors of HAPC.

	<b>Common Shares Owned</b>
Pat LaVecchia	0
Sean McDevitt	0
Wayne P. Yetter	416,667
Erin Enright	250,000
Jean Pierre Millon	416,667
John Voris	666,667
	<b>1,750,001</b>

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These shares of common stock were issued for no consideration. Pursuant to lock up agreements signed by these stockholders, the shares may not be sold until six months after the consummation of HAPC's initial business combination. Although these shares are not registered, the stockholder may make up to two demands that HAPC register the shares at any time subsequent to six months after the consummation of HAPC's initial business combination.

Each individual has agreed that if he or she ceases to be an officer or director of HAPC prior to the dates specified below (other than as a result of (i) disability, as determined by the HAPC Board of Directors or as certified by a physician in a letter to the HAPC Board of Directors, (ii) death, (iii) removal without cause, or (iv) resignation for good reason), the portion of the shares specified below will be forfeited and transferred back to HAPC:

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

All of the common stock issued to these individuals will vest upon completion of the acquisition of InfuSystem.

HAPC recognized compensation of \$8,435,005 in connection with the issuance, computed at \$4.82 per share. 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. HAPC will recognize the remaining \$2,886,841 of compensation as an expense ratably over the forfeiture period of the shares.

In addition, the Board of Directors has approved the grant of 2,000,000 shares of common stock to Sean McDevitt and 416,666 shares of common stock to Pat LaVecchia on the date that is the later of six months after the completion of the acquisition of InfuSystem, or another business combination, or April 11, 2007 (which is the first anniversary of the completion of HAPC's initial public offering). If the acquisition of InfuSystem, or another business combination is not completed, Messrs. McDevitt and LaVecchia will not receive such shares. No officer or director holds any warrants. As a result of the above, HAPC 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.

Messrs. McDevitt and LaVecchia have, collectively, committed to purchase \$1,000,000 of warrants in the market at prevailing market prices or from HAPC at a price of \$0.70 per warrant, subsequent to the preliminary filing of this proxy statement with the SEC.

FTN Midwest Securities Corp. acted as advisor to HAPC in connection with the negotiation of the acquisition. Upon closing of the acquisition, FTN may receive a fee in an amount to be agreed. In the event that the transaction does not close, FTN will receive no consideration. Additionally, in the event that the transaction closes, a deferred underwriting discount of \$5,468,000 in connection with HAPC's initial public offering will be payable by HAPC to FTN. Messrs. McDevitt and LaVecchia are Managing Directors of FTN.

As described below, Messrs. McDevitt and Harris have guaranteed HAPC's obligation to pay the break up fee under the Stock Purchase Agreement to I-Flow. Mr. McDevitt is the Chairman of HAPC. In exchange for providing this personal guaranty, HAPC has agreed to pay the two individuals a fee in the aggregate amount of \$100,000 upon delivery of the guaranty, and \$300,000 upon the closing of the transactions contemplated by, or the termination of the Stock Purchase Agreement. In the event the guaranty is called upon, HAPC is obligated to reimburse the two individuals.

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However, in the event the acquisition is not completed, it is not likely that HAPC would have the resources to reimburse such amounts and these individuals have agreed to waive any right to the trust account for reimbursement. Messrs. McDevitt and Harris have applied to JPMorgan Chase Bank to issue a letter of credit for the benefit of I-Flow which I-Flow may draw upon in the event that the break up fee is not paid when due and payable. Messrs. McDevitt and Harris will deliver the letter of credit to I-Flow once it has been issued by JPMorgan Chase Bank.

**Regulatory Matters**

The acquisition and the transactions contemplated by the Stock Purchase Agreement are not subject to any federal or state regulatory requirements or approvals.

**HAPC's Board of Directors' Recommendation**

After careful consideration, HAPC's Board of Directors has determined unanimously that the acquisition proposal is fair to, and in the best interests of, HAPC and its stockholders. Accordingly, HAPC's Board of Directors has unanimously approved and declared advisable the acquisition and unanimously recommends that you vote or instruct your vote to be cast **FOR** the approval of the acquisition proposal.

***Proposal 2 The Stock Incentive Plan Proposal***

HAPC is seeking stockholder approval for the adoption of the HAPC 2006 Stock Incentive Plan which will provide for the granting of options and/or other stock-based or stock-denominated awards. The material terms of such plan are:

2,000,000 shares of common stock reserved for issuance;

the plan will be administered by the HAPC Board of Directors and any particular term of a grant or award shall be at the HAPC Board's discretion; and

the plan will become effective upon the closing of the acquisition of InfuSystem.

HAPC's Board of Directors has determined unanimously that this proposal is fair to, and in the best interest of HAPC and its stockholders. Accordingly, HAPC's Board has unanimously approved and declared advisable this proposal and unanimously recommends that you vote or instruct your vote to be cast **FOR** the approval of this proposal.

***Proposal 3 The Amendment to Certificate of Incorporation Proposal***

HAPC is seeking stockholder approval to amend HAPC's certificate of incorporation to change the corporate name to InfuSystem Holdings, Inc. Any amendment will not become effective unless and until the acquisition of InfuSystem is completed.

HAPC's Board of Directors has determined unanimously that this proposal is in the best interest of HAPC and its stockholders. Accordingly, HAPC's Board has unanimously approved and declared advisable this proposal and unanimously recommends that you vote or instruct your vote to be cast **FOR** the approval of this proposal.

**Table of Contents****Selected Unaudited Pro Forma Combined Financial Information**

The merger of Acquisition Sub with and into InfuSystem will be accounted for as an acquisition of InfuSystem by HAPC under the purchase method of accounting. Under the purchase method of accounting, the purchase price, including transaction costs, to acquire InfuSystem will be allocated to the underlying net assets, based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired will be recorded as goodwill.

Set forth below is selected unaudited pro forma combined financial information that reflects the purchase method of accounting and is intended to provide you with a better picture of what HAPC's business might have looked like had HAPC and InfuSystem actually been combined. The selected unaudited pro forma combined financial information does not reflect the effect of asset dispositions, if any, or cost savings that may result from the merger. The selected unaudited pro forma combined financial information may not be indicative of the historical results that would have occurred had the companies been combined or the future results that may be achieved after the purchase. The following selected unaudited pro forma combined financial information has been derived from, and should be read in conjunction with, the unaudited pro forma condensed combined financial statements and related notes thereto included elsewhere in this proxy statement.

	Nine Months Ended September 30, 2006		Year Ended December 31, 2005	
	Assuming		Assuming	
	No Redemption (1)	Assuming Maximum Redemption (2) (in thousands, except share and per share data)	No Redemption (1)	Assuming Maximum Redemption (2)
Revenue	\$ 24,262	\$ 24,262	\$ 29,148	\$ 29,148
Net income (loss)	506	(613)	836	(395)
Net income (loss) per share	0.027	(0.040)	0.045	(0.026)
Weighted average number of shares	18,625,252	15,251,889	18,625,252	15,251,889

	September 30, 2006	
	Assuming	
	No Redemption (1)	Assuming Maximum Redemption (2) (in thousands)
Total assets	\$ 151,844	\$ 152,788
Long-term debt	55,000	74,366
Total Stockholders' equity	93,486	75,064

- (1) Assumes no HAPC stockholders redeem their conversion rights.  
(2) Assumes 19.99% of the HAPC stockholders redeem their conversion rights.

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**RISK FACTORS**

*You should carefully consider the following risk factors, together with all of the other information included in this proxy statement, before you decide whether to vote or instruct your vote to be cast to adopt the acquisition proposal. As HAPC's operations will be those of InfuSystem upon completion of the acquisition, a number of the following risk factors relate to the business and operations of InfuSystem and HAPC, as the successor to such business.*

**Risks Related to the Acquisition**

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

Pursuant to the terms of HAPC's amended and restated certificate of incorporation, HAPC 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 HAPC to consummate the acquisition of InfuSystem by April 18, 2008 (notwithstanding the fact that HAPC is contractually bound to complete the acquisition by April 30, 2007 under the terms of the Stock Purchase Agreement). If HAPC fails to consummate the acquisition by April 18, 2008, it is unlikely that HAPC will have sufficient time to complete an alternative business combination and will be forced to liquidate its assets.

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

If HAPC is unable to complete the acquisition and forced to liquidate its assets, the per-share liquidation distribution on the shares of common stock sold in HAPC's 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 HAPC will expire worthless if HAPC liquidates before the completion of the acquisition.

***If HAPC 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 HAPC's amended and restated certificate of incorporation, holders of shares common stock issued in the HAPC's initial public offering in April 2006 may vote against the acquisition and demand that HAPC 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, HAPC 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 HAPC 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 HAPC 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 HAPC 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 HAPC 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 HAPC or at all, the failure to do any of which could have adverse consequences for our business, financial condition and results of operations.

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

HAPC's ability to successfully operate after the acquisition of InfuSystem will be dependent upon the efforts of its key personnel. The future role of HAPC's management personnel following the acquisition, however, cannot presently be fully ascertained. Pursuant to the terms of an employment agreement under negotiation between HAPC 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 HAPC's Board of Directors. At the time the acquisition is completed, HAPC intends 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 HAPC in capacities similar to their roles with respect to InfuSystem. While HAPC intends to closely scrutinize any additional individuals it engages after the acquisition of InfuSystem, HAPC cannot assure you that its 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 HAPC to have to expend time and resources helping them become familiar with such laws. This could be expensive and time-consuming, which would reduce HAPC's profitability, and could lead to various regulatory problems that would further increase costs and reduce profitability.

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

In considering the recommendation of HAPC's 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 HAPC's Board are parties to agreements or arrangements that provide them with interests that differ from, or are in

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

In addition, Sean McDevitt, HAPC's Chairman, has personally guaranteed HAPC's 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 HAPC's 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.

***HAPC expects 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.***

HAPC expects 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. HAPC estimates that it will incur direct transaction costs of approximately \$2,300,000. 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.

***The pro forma financial statements are not an indicator of InfuSystem's financial condition or results of operations following the acquisition.***

The pro forma financial statements contained in this proxy statement are not an indicator of the InfuSystem's financial condition or results of operations following the acquisition. The pro forma financial statements have been derived from the historical financial statements of InfuSystem and HAPC and many adjustments and assumptions have been made regarding InfuSystem after giving effect to the acquisition. The information upon which these adjustments and assumptions have been made is preliminary, and these kinds of adjustments and assumptions are difficult to make with complete accuracy. As a result, the actual financial condition and results of operations of InfuSystem following the acquisition may not be consistent with, or evident from, these pro forma financial statements.

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

HAPC's initial stockholders are entitled to demand that HAPC 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



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respective lock-up agreements. If HAPC's 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 HAPC 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 HAPC's common stock may decline.*

The market price of HAPC's common stock may decline as a result of the acquisition if InfuSystem does not perform as expected, or HAPC does 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 HAPC may not be able to raise future capital, if necessary, in the equity markets.

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

As a result of the acquisition, HAPC's 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.

### **Risks Relating to the Business and Operations Following the Acquisition of InfuSystem**

The value of your investment in HAPC following consummation of the acquisition will be subject to the significant risks inherent in the healthcare industry. You should carefully consider the risks and uncertainties described below and other information included in this proxy statement. If any of the events described below occur, the business and financial results of InfuSystem subsequent to the acquisition could be materially adversely affected. This could cause the trading price of HAPC's common stock to decline, perhaps significantly, and stockholders therefore may lose all or part of their investment.

*InfuSystem is dependent on its Medicare Supplier Number.*

InfuSystem has obtained a Medicare Supplier Number and is required to comply with Medicare Supplier Standards in order to maintain such number. If InfuSystem ceases to be able to comply with the relevant standards, it could lose its Medicare Supplier Number, which is the primary identification number used with InfuSystem's various third-party payors. The loss of such identification number for any reason would have a material adverse effect on InfuSystem's business and revenues.

*Changes in third-party reimbursement rates may adversely impact InfuSystem's revenues.*

InfuSystem depends primarily on third-party reimbursement for the collection of its revenues. InfuSystem is paid directly by private insurers and governmental agencies, often on a fixed fee basis, for infusion equipment and related disposable supplies provided to patients. If the average fees allowable by private insurers or governmental agencies were reduced, the negative impact on revenues could have a material adverse effect on InfuSystem's financial condition and results of operations.

*InfuSystem's customers frequently receive reimbursement from private insurers and governmental agencies. Any change in the overall reimbursement system may adversely impact InfuSystem's business. The health care reimbursement system is in a constant state of change.*

Changes often create financial incentives and disincentives that encourage or discourage the use of a particular type of product, therapy or clinical procedure. Market acceptance of infusion therapy may be adversely

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affected by changes or trends within the reimbursement system. Changes to the health care system that favor technologies or treatment regimens other than InfuSystem's or that reduce reimbursements to providers or treatment facilities that use InfuSystem's products may adversely affect InfuSystem's ability to market its products profitably.

InfuSystem's customers are heavily dependent on payment for their services by private insurers and governmental agencies. Changes in the reimbursement system could adversely affect InfuSystem's participation in the industry. InfuSystem believes that the current trend in the insurance industry (both private and governmental) has been to eliminate cost-based reimbursement and to move towards fixed or limited fees for service, thereby encouraging health care providers to use the lowest cost method of delivering medications. Furthermore, certain payors may transition to competitive bidding programs to lower costs even more. These trends may discourage the use of InfuSystem's products, create downward pressure on InfuSystem's average prices, and, ultimately, negatively affect InfuSystem's revenues and profit margins.

***InfuSystem's success is impacted by the availability of the chemotherapy drugs that are used in InfuSystem's infusion pump systems.***

InfuSystem primarily derives its revenue from the rental of ambulatory infusion pump systems to oncology patients through physicians' offices and chemotherapy clinics. A shortage in the availability of chemotherapy drugs that are used in the infusion pump systems, including the commonly-used chemotherapy drug known as 5-Fluorouracil, could have a material adverse effect on InfuSystem's financial condition and results of operations. For instance, InfuSystem believes a shortage of 5-Fluorouracil in the fourth quarter of 2005 resulted in an unfavorable revenue impact of approximately \$1.9 million. The 5-Fluorouracil shortage continued into the first quarter of 2006 and, although availability of 5-Fluorouracil returned to normal at the end of the first quarter of 2006, revenue was affected during the second quarter of 2006 due to a decline in the number of patients in the pipeline who had to turn to other medications. Future shortages of 5-Fluorouracil or other commonly-used chemotherapy drugs could negatively impact InfuSystem's revenue and financial condition.

***InfuSystem's revenues are heavily dependent on physicians' acceptance of infusion therapy as a preferred therapy since a significant percentage of patients are treated with oral medications. If new oral medications are introduced or future clinical studies demonstrate that oral medications are as effective or more effective than infusion therapy, InfuSystem's business could be adversely affected.***

Continuous infusion therapy is currently preferred by many physicians over oral medication treatment despite the more cumbersome aspects of maintaining a continuous infusion regimen. The reasons for these physicians' preference are varied, including a belief that infusion therapy involves fewer adverse side effects and may provide greater therapeutic benefits. Numerous clinical trials are currently ongoing, evaluating and comparing the therapeutic benefits of current infusion-based regimens with various oral medication regimens. If these clinical trials demonstrate that oral medications provide equal or greater therapeutic benefits and/or demonstrate reduced side effects from prior oral medication regimens, InfuSystem's revenues and overall business could be materially and adversely affected. Additionally, if new oral medications are introduced to the market that are superior to existing oral therapies, physicians' willingness to prescribe infusion-based regimens could decline, which would adversely affect InfuSystem's financial condition and results of operations.

***InfuSystem's growth strategy includes expansion into infusion treatment for cancers other than the colorectal type. There can be no assurance that infusion-based regimens for these other cancers will become accepted or that InfuSystem will be successful in penetrating these different markets.***

An aspect of InfuSystem's growth strategy is to expand into the treatment of other cancers, such as head, neck, esophagus, stomach and lung. Currently, however, there is not widespread acceptance of infusion-based therapies in the treatment of these other cancers and future acceptance of continuous infusion therapies depends on new protocols for existing drugs and approval of new drugs currently in clinical trials. No assurances can be

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given that these new drugs will be approved or will prove superior to oral medication or other treatment alternatives. In addition, no assurances can be given that InfuSystem will be able to successfully penetrate any new markets that may develop in the future or manage the growth in additional resources that would be required.

***InfuSystem's compliance with laws frequently involves subjective judgment. If InfuSystem is wrong in any of its interpretations of the laws, InfuSystem could be subjected to substantial penalties for noncompliance.***

In the ordinary course of business, InfuSystem frequently makes subjective judgments with respect to complying with applicable state, local and foreign laws. If any of these authorities disagrees with InfuSystem's interpretation of, or objects to the manner in which InfuSystem has attempted to comply with, applicable law, InfuSystem could be subjected to substantial civil and criminal penalties and a recall, seizure or injunction with respect to its products. These types of actions against InfuSystem could have a material adverse effect on InfuSystem's financial condition and results of operations.

***The industry in which InfuSystem operates is intensely competitive and changes rapidly. If InfuSystem is unable to maintain a lead over its competitors, its business operations may suffer.***

The drug infusion industry is highly competitive. InfuSystem competes in this industry based primarily on price, service and performance. Some of InfuSystem's competitors and potential competitors have significantly greater resources than InfuSystem does for research and development, marketing and sales. As a result, they may be better able to compete for market share, even in areas in which InfuSystem's services may be superior. The industry is subject to technological changes and InfuSystem may not be able to maintain any existing advantage long enough to sustain profitability. If InfuSystem is unable to effectively compete in its market, its financial condition and results of operations may materially suffer.

***InfuSystem relies on independent suppliers for its products. Any delay or disruption in the supply of products, particularly its supply of electronic ambulatory pumps, may negatively impact InfuSystem's operations.***

InfuSystem's infusion pumps are obtained from outside vendors. The majority of InfuSystem's pumps are electronic ambulatory pumps which are supplied to InfuSystem by three major suppliers: Smiths Medical, Inc.; Hospira Worldwide, Inc.; and McKinley Medical, LLC. The loss or breakdown of InfuSystem's relationships with even one of these outside vendors could subject InfuSystem to substantial delays in the delivery of its products to customers. Significant delays in the delivery of products could result in possible cancellation of orders and the loss of customers. InfuSystem's inability to provide products to meet delivery schedules could have a material adverse effect on its reputation in the industry, as well as its financial condition and results of operations.

***Although InfuSystem does not manufacture the products it distributes, if one of the products distributed by InfuSystem proves to be defective or is misused by a health care practitioner or patient, InfuSystem may be subject to liability that could adversely affect InfuSystem's financial condition and results of operations.***

Although InfuSystem does not manufacture the products that it distributes, a defect in the design or manufacture of one of the products distributed by InfuSystem, or a failure of products distributed by InfuSystem to perform for the use specified, could have a material adverse effect on InfuSystem's reputation in the industry and subject InfuSystem to claims of liability for injuries and otherwise. Misuse of products distributed by InfuSystem by a practitioner or patient that results in injury could similarly subject InfuSystem to liability. Any substantial underinsured loss could have a material adverse effect on InfuSystem's financial condition and results of operations. Furthermore, any impairment of InfuSystem's reputation could have a material adverse effect on its sales, revenues, and prospects for future business.

***InfuSystem will not be covered by insurance policies held by HAPC and will need to obtain its own insurance.***

After the closing of the acquisition, InfuSystem will need to have its own insurance in place. InfuSystem will not be covered by the policies carried by HAPC. Among the various types of insurance that InfuSystem will

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need to obtain are liability insurance, worker's compensation insurance and product liability insurance. Insurance coverage is becoming increasingly expensive. As a result, InfuSystem may be unable to obtain sufficient insurance at a reasonable cost to protect against losses that could have a material adverse effect on its business.

*The preparation of InfuSystem's financial statements in accordance with accounting principles generally accepted in the United States requires InfuSystem to make estimates, judgments, and assumptions that may ultimately prove to be incorrect.*

The accounting estimates and judgments that management must make in the ordinary course of business affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented. If the underlying estimates are ultimately proven to be incorrect, subsequent adjustments resulting from errors could have a material adverse effect on InfuSystem's operating results for the period or periods in which the change is identified. For instance, InfuSystem sets reserve percentages for its uncollectible accounts. If actual results vary from these expected percentages, InfuSystem may be required to alter its bad debt expense. During the three and nine months ended September 30, 2006, InfuSystem experienced a bad debt increase of \$0.9 million and \$1.9 million, respectively.

*InfuSystem may be required to make a significant cash payment to the State of Michigan Department of Treasury for use taxes imposed on InfuSystem's purchase of infusion pumps.*

In August 2005, the State of Michigan Department of Treasury issued a decision and order of determination which provided that InfuSystem is liable for use taxes on its purchases of infusion pumps. As a result, InfuSystem has recorded through September 30, 2006 a cumulative net increase to gross fixed assets of \$1,168,000, a tax liability of \$1,281,000, a liability for accrued interest expense of \$210,000, and total expense of \$861,000. InfuSystem is currently appealing the decision. In the event that InfuSystem's appeal of the decision is not successful, InfuSystem may be required to make a payment in excess of \$1,491,000 to the State of Michigan Department of Treasury, which will result in a decrease in InfuSystem's available working capital.

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**FORWARD-LOOKING STATEMENTS**

HAPC believes that some of the information in this proxy statement constitutes forward-looking statements. You can identify these statements by forward-looking words such as may, expect, anticipate, contemplate, believe, estimate, intends, and continue or similar words. You should read statements that contain these words carefully because they:

discuss future expectations;

contain projections of future results of operations or financial condition; or

state other forward-looking information.

HAPC believes it is important to communicate its expectations to its stockholders. However, there may be events in the future that HAPC is not able to accurately predict or over which HAPC has no control. The risk factors and cautionary language discussed in this proxy statement provide examples of risks, uncertainties and events that may cause actual results to differ materially from the expectations described by HAPC in its forward-looking statements, including among other things:

the number and percentage of HAPC stockholders voting against the acquisition proposal;

the increase in the principal amount of the promissory note used by InfuSystem to finance the acquisition as HAPC stockholders exercise their conversion rights;

the potential decrease in the market price of HAPC's common stock in the event that the acquisition's benefits do not meet the expectations of the market place;

legislation or regulatory environments, requirements or changes adversely affecting the businesses in which InfuSystem, Inc. is engaged; and

industry trends.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this proxy statement.

All forward-looking statements included herein attributable to HAPC or any person acting on either party's behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable laws and regulations, HAPC undertakes no obligation to update these forward-looking statements to reflect events or circumstances after the date of this proxy statement or to reflect the occurrence of unanticipated events.

Before you grant your proxy or instruct how your vote should be cast or vote on the approval of the acquisition you should be aware that the occurrence of the events described in the Risk Factors section and elsewhere in this proxy statement could have a material adverse effect on HAPC upon completion of the acquisition.

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**THE HAPC SPECIAL MEETING**

*The HAPC Special Meeting*

HAPC is furnishing this proxy statement to you as part of the solicitation of proxies by the HAPC Board of Directors for use at the special meeting in connection with the proposed acquisition, the adoption of the HAPC 2006 Stock Incentive Plan and the amendment to HAPC's amended and restated certificate of incorporation. This proxy statement provides you with the information you need to be able to vote or instruct your vote to be cast at the special meeting.

*Date, Time and Place*

The special meeting will be held at \_\_\_\_\_ a.m., Eastern Time, on \_\_\_\_\_, at the offices of HAPC, to vote on each of the acquisition, the adoption of the HAPC 2006 Stock Incentive Plan and the amendment to the certificate of incorporation proposals.

*Purpose of the Special Meeting*

At the special meeting, the holders of HAPC common stock are being asked to:

approve the acquisition by Acquisition Sub of all of the issued and outstanding capital stock of InfuSystem pursuant to the Stock Purchase Agreement, dated as of September 29, 2006, by and among I-Flow, InfuSystem, HAPC and Acquisition Sub;

approve the adoption of the HAPC 2006 Stock Incentive Plan; and

approve the amendment of HAPC's certificate of incorporation to change the name of HAPC, INC. to InfuSystem Holdings, Inc.  
The HAPC Board of Directors:

has unanimously determined that the acquisition, the adoption of the HAPC 2006 Stock Incentive Plan and the amendment to HAPC's certificate of incorporation proposals are fair to, and in the best interests of, HAPC and its stockholders;

has determined that the consideration to be paid by HAPC in connection with the acquisition of InfuSystem is fair to HAPC's current stockholders from a financial point of view and the fair market value of InfuSystem is equal to or greater than 80% of the value of the net assets of HAPC;

has unanimously approved and declared advisable the acquisition, the adoption of the HAPC 2006 Stock Incentive Plan and the amendment to HAPC's amended and restated certificate of incorporation proposals; and

unanimously recommends that the holders of HAPC common stock vote FOR the proposal to approve the acquisition of all of the issued and outstanding capital stock of InfuSystem, FOR the approval of the HAPC 2006 Stock Incentive Plan and FOR the approval of the amendment to HAPC's certificate of incorporation in order to change its name to InfuSystem Holdings, Inc.

*Record Date; Who is Entitled to Vote*

The Record Date for the special meeting is \_\_\_\_\_, 2006. Record holders of HAPC common stock at the close of business on the Record Date are entitled to vote or have their votes cast at the special meeting. On the Record Date, there were \_\_\_\_\_ outstanding shares of HAPC common stock.

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Each share of HAPC common stock is entitled to one vote per share at the special meeting.

Any shares of HAPC common stock purchased prior to the initial public offering will be voted in accordance with the majority of the votes cast at the special meeting on the acquisition proposal (although such

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vote will not affect the outcome, since the majority of the votes cast by holders of common stock acquired in the initial public offering or afterwards is required to approve the acquisition), and in favor of the stock incentive plan proposal and the amendment to certificate of incorporation proposal. The holders of common stock acquired in HAPC's initial public offering or afterwards are free to vote such shares, as they see fit.

HAPC's issued and outstanding warrants do not have voting rights and record holders of HAPC warrants will not be entitled to vote at the special meeting.

*Voting Your Shares*

Each share of HAPC common stock that you own in your name entitles you to one vote. Your proxy card shows the number of shares of HAPC common stock that you own.

There are two ways to vote your shares of HAPC common stock at the special meeting:

You can vote by signing and returning the enclosed proxy card. If you vote by proxy card, your proxy, whose name is listed on the proxy card, will vote your shares as you instruct on the proxy card. If you sign and return the proxy card, but do not give instructions on how to vote your shares, your shares will be voted, as recommended by the HAPC Board, FOR the approval of the acquisition proposal, FOR the approval of the stock incentive plan proposal and FOR approval of the amendment to the amended and restated certificate of incorporation proposal.

You can attend the special meeting and vote in person. HAPC will give you a ballot when you arrive. However, if your shares are held in the name of your broker, bank or another nominee, you must get a proxy from the broker, bank or other nominee. That is the only way HAPC can be sure that the broker, bank or nominee has not already voted your shares.

**Who Can Answer Your Questions About Voting Your Shares**

If you have any questions about how to vote or direct a vote in respect of your HAPC common stock, you may call HAPC's Secretary at (212) 418-5070.

**No Additional Matters May Be Presented at the Special Meeting**

This special meeting has been called only to consider the approval of the acquisition, the HAPC 2006 Stock Incentive Plan and amendment to amended and restated certificate of incorporation proposals. Under HAPC's bylaws, other than procedural matters incident to the conduct of the meeting, no other matters may be considered at the special meeting if they are not included in the notice of the meeting.

**Revoking Your Proxy**

If you give a proxy, you may revoke it at any time before it is exercised by doing any one of the following:

You may send another proxy card with a later date;

You may notify HAPC's Secretary addressed to HAPC, in writing before the special meeting that you have revoked your proxy; and

You may attend the special meeting, revoke your proxy, and vote in person.

**Vote Required**



## Edgar Filing: HAPC, Inc. - Form PREM14A

The acquisition of all of the issued and outstanding capital stock of InfuSystem by Acquisition Sub cannot be completed unless holders as of , 2006 (the Record Date ) of at least a majority of the shares of HAPC s common stock issued in HAPC s initial public offering, including shares subsequently purchased in the

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open market, that are present in person or by proxy and entitled to vote at the special meeting and that vote on the proposal, approve the acquisition, provided less than 20% of the shares of HAPC's common stock issued in HAPC's initial public offering vote against the acquisition proposal and elect a cash conversion of their shares.

The approval of the adoption of the HAPC 2006 Stock Incentive Plan will require the affirmative vote of holders as of the Record Date of a majority of the shares of HAPC's common stock issued and outstanding as of the Record Date that are present in person or by proxy at the special meeting.

The approval of the adoption of the amendment to HAPC's amended and restated certificate of incorporation will require the affirmative vote of holders as of the Record Date of a majority of the shares of HAPC's common stock issued and outstanding as of the Record Date.

### **Abstentions and Broker Non-Votes**

If your broker holds your shares in its name and you do not give the broker voting instructions, your broker may not vote your shares on the proposal to approve the acquisition of InfuSystem pursuant to the Stock Purchase Agreement, the proposal to adopt the HAPC 2006 Stock Incentive Plan or the proposal to amend the amended and restated certificate of incorporation. If you do not give your broker voting instructions and the broker does not vote your shares, this is referred to as a broker non-vote.

An abstention or a broker non-vote with respect to the acquisition proposal will have no effect since the acquisition proposal requires the affirmative vote of a majority of the votes cast by holders of eligible shares. An abstention or a broker non-vote with respect to the proposal to adopt the HAPC 2006 Stock Incentive Plan will have the same effect as a vote against the proposal since it is not an affirmative vote in favor of the proposal but will be included in the determination of the number of shares present in person or by proxy. An abstention or a broker non-vote with respect to the proposal to amend the amended and restated certificate of incorporation will have the same effect as a vote against the proposal since it is not an affirmative vote in favor of the proposal but will be included in the determination of the number of shares issued and outstanding as of the Record Date.

Abstentions and broker non-votes will be counted for purposes of determining the presence of a quorum.

### **Failure to Vote**

A failure to vote by not returning a signed proxy card will have no impact upon the proposals to approve the acquisition of InfuSystem or, to adopt the HAPC 2006 Stock Incentive Plan, and will have the same effect as a vote against the proposal to amend the amended and restated certificate of incorporation. Failure to vote will not have the effect of converting your shares into a pro rata portion of the trust account.

### **Conversion Rights**

Any stockholder of HAPC holding shares of common stock issued in HAPC's initial public offering who votes against the acquisition proposal may, at the same time, demand that HAPC convert his shares into a pro rata portion of the trust account. If so demanded, upon consummation of the acquisition, HAPC will convert these shares into a pro rata portion of funds held in a trust account, which consisted of approximately \$98,016,572, as of October 31, 2006, of net proceeds from the initial public offering, plus interest earned thereon after such date. If the holders of 20%, or 3,375,050, or more shares of common stock issued in HAPC's initial public offering vote against the acquisition proposal and demand conversion of their shares into a pro rata portion of the trust account, HAPC will not be able to consummate the acquisition. Based on the amount of cash held in the trust account as of October 31, 2006, without taking into account any interest accrued after such date, you will be entitled to convert each share of common stock that you hold into approximately \$5.81 per share, less income taxes owed on accrued interest.

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If the acquisition is not consummated, you will not receive any such payment. However, HAPC will be liquidated in accordance with the terms of its amended and restated certificate of incorporation if (i) it does not consummate a business combination by October 18, 2007, or (ii) if a letter of intent, agreement in principle or definitive agreement is executed, but not consummated, by October 18, 2007 then by April 18, 2008 (24 months after the consummation of its initial public offering). In any liquidation, the net proceeds of HAPC's initial public offering held in the trust account, plus any interest earned thereon, will be distributed on a pro rata basis to the holders of HAPC's common stock who purchased their shares in HAPC's initial public offering or thereafter.

If you exercise your conversion rights, then you will be exchanging your shares of HAPC common stock for cash and will no longer own these shares. You will only be entitled to receive cash for these shares if you continue to hold these shares through the closing date of the acquisition and then tender your stock certificate to HAPC. The closing price of HAPC's common stock on November 30, 2006, was \$5.60 and the amount of cash held in the trust account was approximately \$98,016,572 as of October 31, 2006, plus interest accrued thereon after such date. If an HAPC stockholder elected to exercise his conversion rights on such date, then, without taking into account any interest accrued after such date, he would have been entitled to receive \$5.81 per share, less income taxes owed on accrued interest. Prior to exercising conversion rights, HAPC stockholders should verify the market price of HAPC's common stock as they may receive higher proceeds from the sale of their common stock in the public market than from exercising their conversion rights.

## **Solicitation Costs**

HAPC is soliciting proxies on behalf of the HAPC Board of Directors. This solicitation is being made by mail but also may be made by telephone or in person. HAPC and its respective directors and officers may also solicit proxies in person, by telephone or by other electronic means, and in the event of such solicitations, the information provided will be consistent with this proxy statement and enclosed proxy card. These persons will not be paid for doing this. HAPC will ask banks, brokers and other institutions, nominees and fiduciaries to forward its proxy statement materials to their principals and to obtain their authority to execute proxies and voting instructions. HAPC will reimburse them for their reasonable expenses.

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**PROPOSAL 1**

**THE ACQUISITION PROPOSAL**

The discussion in this proxy statement of the acquisition and the principal terms of the Stock Purchase Agreement dated September 29, 2006, or Stock Purchase Agreement, by and among InfuSystem, I-Flow, HAPC and Acquisition Sub, is subject to, and is qualified in its entirety by reference to, the Stock Purchase Agreement. A copy of the Stock Purchase Agreement attached as Annex A to this proxy statement.

**General Description of the Acquisition**

Pursuant to the Stock Purchase Agreement, Acquisition Sub will acquire 100% of the issued and outstanding capital stock of InfuSystem from I-Flow. Concurrently with Acquisition Sub's acquisition of all of the issued and outstanding capital stock of InfuSystem, 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.

**Background of the Acquisition**

The terms of the Stock Purchase Agreement are the result of arm's-length negotiations between representatives of HAPC and I-Flow. The following is a brief discussion of the background of these negotiations, the acquisition and related transactions.

HAPC was formed in Delaware on August 15, 2005. HAPC was formed specifically 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. The initial business combination entered into by HAPC 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.

A registration statement for HAPC's initial public offering was declared effective on April 11, 2006. On April 18, 2006, HAPC consummated its initial public offering of 16,666,667 units at a price of \$6.00 per unit. On May 18, 2006, HAPC sold 208,584 units to FTN Midwest Securities Corp., the underwriter of HAPC's initial public offering, pursuant to a partial exercise by FTN Midwest Securities Corp. of its overallotment option. The units were sold at the offering price of \$6.00 per unit, minus FTN Midwest Securities Corp.'s 7% underwriting discount. Each unit consists of one share of the HAPC's common stock, \$.0001 par value, and two redeemable common stock purchase warrants. The common stock and warrants began trading separately on the OTC Bulletin Board as of June 15, 2006.

Each warrant entitles the holder to purchase from HAPC 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 initial public offering and expiring five years from the effective date of the initial public offering.

HAPC 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. The warrants 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 holders of the warrants.

In addition, on April 18, 2006, HAPC 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 initial public offering, except that each of the warrants underlying this option entitles the holder to purchase one share of 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 or April 11, 2007 and expires on April 11, 2011. The option may only be exercised or converted by the option holder.

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In connection with the initial public offering, HAPC paid to FTN Midwest Securities Corp. an underwriting discount of 7% of the initial public offering price and a non-accountable expense allowance of 1% of the initial public offering price.

The net proceeds from the sale of the HAPC units were approximately \$98,011,000 which includes a contingent underwriting fee of \$5,468,000. Of this amount, \$96,215,000 was deposited in trust and, in accordance with HAPC's amended and restated certificate of incorporation, will be released either upon the consummation of a business combination or upon the liquidation of HAPC. The remaining \$1,796,000 was held outside of the trust to provide for business, legal and accounting due diligence on prospective acquisitions and continuing general and administrative expenses. As of October 31, 2006, approximately \$98,016,572 was held in deposit in the trust account.

Following its initial public offering in April 2006, HAPC's officers and directors contacted various principals and intermediaries such as investment banks, private equity firms and business brokers in order to generate ideas for a suitable business combination. HAPC informed its business contacts that it had consummated an initial public offering and was seeking an operating business in the healthcare industry. HAPC encouraged business brokers to contact clients who might constitute potential acquisition targets and explore the possibility of a transaction.

On April 27, 2006, HAPC received an invitation to participate in a private solicitation process held by I-Flow to sell InfuSystem. HAPC engaged FTN to advise it in connection with its bid. On April 29, 2006, HAPC received the InfuSystem executive summary and a nondisclosure agreement. On May 3, 2006, HAPC signed the nondisclosure agreement with I-Flow. On May 12, 2006, HAPC received a bid instruction letter. On May 18, 2006, HAPC submitted a preliminary indication of interest of \$135,000,000 to \$150,000,000. On May 23, 2006, HAPC was informed that it was invited to continue in the sale process.

On June 2, 2006, HAPC and its advisors were provided with access to an electronic data room containing detailed information regarding InfuSystem. HAPC received an initial draft stock purchase agreement and final bid instructions on June 7, 2006. HAPC continued to perform due diligence through June, 2006, employing legal, accounting, information technology and healthcare industry experts to assist with its investigation.

On June 13, 2006, HAPC attended an InfuSystem management presentation in Troy, Michigan. Two weeks later, on June 28, 2006, HAPC participated on a call with Steven E. Watkins, president of InfuSystem, to discuss management's financial projections. On July 16, 2006, the HAPC board of directors met and gave management the authority to bid up to \$135,000,000 for the purchase of InfuSystem. On July 17, 2006, HAPC submitted a \$130,000,000 bid and a mark-up of the Stock Purchase Agreement to I-Flow.

Between July 20, 2006 and July 27, 2006, HAPC entered into non-disclosure agreements with certain of its existing stockholders to discuss the potential acquisition of InfuSystem.

On July 27, 2006, representatives of FTN Midwest Securities Corp. met I-Flow's financial advisor to discuss HAPC's proposal. In particular, they discussed the mechanics by which HAPC must obtain stockholder approval of the transaction and other structural issues. In addition, I-Flow's financial advisor informed FTN that HAPC's offer was lower than other offers that had been received by I-Flow and that HAPC would have to increase its offer in order to make it the winning bid. On August 1, 2006, the HAPC board of directors held a call to discuss HAPC's process for bidding to purchase InfuSystem. On August 1, 2006, HAPC increased the bid to purchase InfuSystem to \$135,000,000. I-Flow informed HAPC that its offer was insufficient. On August 3, 2006, the HAPC board of directors increased the bid to purchase InfuSystem to \$140,000,000 and agreed to modify certain elements of its offer and to provide for a \$3,000,000 termination fee as described herein. On August 8, 2006, HAPC was informed that it was the winning bidder.

On August 9, 2006, HAPC entered into an exclusivity agreement with I-Flow. On August 15, 2006, representatives of HAPC and FTN Midwest Securities Corp. met with InfuSystem for a due diligence session in

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Troy, Michigan. HAPC and its advisors continued to perform due diligence through September 29, 2006. Between August 9, 2006 and September 29, 2006, I-Flow, HAPC and their respective advisors discussed and negotiated the terms of the Stock Purchase Agreement and the terms of the I-Flow promissory note.

On September 20, 2006, HAPC received the final audit report for InfuSystem from I-Flow. On September 29, 2006, the HAPC board of directors met to approve the final draft Stock Purchase Agreement and to receive a fairness opinion from BNY Capital Markets, Inc.

**Interest of HAPC Directors and Officers in the Acquisition**

In considering the recommendation of the Board of Directors of HAPC to vote for the proposals to adopt the acquisition, you should be aware that certain members of the HAPC Board have agreements or arrangements that provide them with interests in the acquisition that differ from, or are in addition to, those of HAPC stockholders generally. In particular:

if the acquisition is not approved and HAPC fails to consummate an alternative transaction within the time allotted pursuant to its amended and restated certificate of incorporation and HAPC is therefore required to liquidate, the shares of common stock and warrants held by HAPC's executives, directors and special advisors will be worthless because HAPC's executives, directors and special advisors are not entitled to receive any of the net proceeds of HAPC's initial public offering that may be distributed upon the liquidation of HAPC. HAPC's executives, directors and special advisors own a total 1,750,001 shares of HAPC common stock that have a market value of \$9,800,006 based on HAPC's share price of \$5.60 as of November 30, 2006. However, as HAPC's officers, directors and special advisors are contractually prohibited from selling their shares of common stock until six months after HAPC's initial business combination has been completed, during which time the value of the shares may increase or decrease, it is impossible to determine what the financial impact of the acquisition will be on HAPC's officers and directors;

the Board of Directors has approved the grant of 2,000,000 shares of common stock to Sean McDevitt and 416,666 shares of common stock to Pat LaVecchia on the date that is the later of six months after the completion of the acquisition of InfuSystem, or another business combination, or April 11, 2007 (which is the first anniversary of the completion of HAPC's initial public offering). If the acquisition of InfuSystem, or another business combination is not completed, Messrs. McDevitt and LaVecchia will not receive such shares;

FTN Midwest Securities Corp. acted as advisor to HAPC in connection with the negotiation of the acquisition. Upon closing of the acquisition, FTN may receive a fee in an amount to be agreed. In the event the transaction does not close, FTN will receive no consideration. Messrs. McDevitt and LaVecchia are Managing Directors of FTN;

in consideration of the guaranty by Sean McDevitt and Philip B. Harris of the break up fee of up to \$3,000,000 payable by HAPC to I-Flow in connection with the termination of the Stock Purchase Agreement under certain circumstances, HAPC has agreed to pay Messrs. McDevitt and Harris a fee of \$100,000 upon delivery of the Guaranty and \$300,000 upon closing of the transactions contemplated by, or the termination of, the Stock Purchase Agreement. Messrs. McDevitt and Harris have applied to JPMorgan Chase Bank to issue a letter of credit for the benefit of I-Flow which I-Flow may draw upon in the event that the \$3,000,000 or \$1,000,000 break up fee, as the case may be, is not paid when due and payable. Messrs. McDevitt and Harris will deliver the letter of credit to I-Flow once it has been issued by JPMorgan Chase Bank; and

pursuant to the terms of an employment agreement under negotiation between HAPC 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 HAPC's Board of Directors. At the time the acquisition is completed, HAPC intends 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.

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### **HAPC's Reasons for the Acquisition and Recommendation of the HAPC Board of Directors**

The HAPC Board of Directors has concluded that the acquisition of InfuSystem is in the best interests of HAPC's stockholders. In reaching its decision, the HAPC Board of Directors considered the points listed below.

#### *InfuSystem's growth prospects*

InfuSystem's revenue grew 49% in 2004, 47% in 2005 and 23% during June year-to-date 2006 and InfuSystem's earnings increased 145%, 74% and 30% during those periods respectively. HAPC believes that the market acceptance of continuous infusion therapy for colorectal cancer is growing and may also increase in the treatment of other cancers in the future. HAPC also believes that InfuSystem should be able to leverage its strong position in the sector to share in that growth.

#### *InfuSystem's profitability*

InfuSystem's operating profit as a percentage of revenue has been 24%, 28% and 29% for 2004, 2005 and June year-to-date 2006. HAPC believes that these margins are superior to many other competitors and that InfuSystem will be able to sustain these margins because of its unique services offered, nationwide presence, contracts with payors and relationship with physicians' offices.

#### *The experience of InfuSystem's management*

Another important criteria to HAPC's Board of Directors in identifying an acquisition target was that the company must have a seasoned management team with specialized knowledge of the markets within which it operates and the ability to lead a growth company. InfuSystem's management team has worked together for over ten years and positioned InfuSystem for the growth that it has recently experienced. InfuSystem's management team is led by Steven E. Watkins, president and founder of InfuSystem, who will remain with the business as president and chief executive officer of InfuSystem after the acquisition.

Mr. Watkins has been the president of InfuSystem since 1998. He was one of the founders of Venture Medical, a predecessor to InfuSystem. Prior to joining InfuSystem, Mr. Watkins was Vice President of Aventric Medical, Inc., a Midwest distributor of high-tech equipment such as pacemakers, cardiac imaging devices and drug delivery systems. Concurrent with the start-up of InfuSystem, Mr. Watkins was President of Medical Reimbursement Solutions, a third-party billing company that formatted and transmitted billing claims on behalf of infusion centers, physicians and hospitals.

Janet Skonieczny has been the vice president of operations of InfuSystem since 1998. Prior to this time, Ms. Skonieczny was the office manager of Aventric Medical.

Stephen Revere has been the controller of InfuSystem, and its predecessor, Venture Medical, since 1992. Prior to joining InfuSystem, he was the controller for PRN Group and a partner at the accounting firm Revere & Greer PC. Mr. Revere is a certified public accountant.

#### *InfuSystem's ability to operate as a public company.*

HAPC's Board of Directors believes that InfuSystem has the scale, management depth and experience and financial strength to operate as a publicly traded company.

#### *The terms of the Stock Purchase Agreement*

The terms of the Stock Purchase Agreement with InfuSystem, including the closing conditions, restrictions on HAPC's and InfuSystem's ability to respond to competing proposals and termination provisions, are customary and reasonable. It was important to HAPC's Board of Directors that the Stock Purchase Agreement include customary terms and conditions as it believed that such terms and conditions would allow for a more efficient closing process and lower transaction expenses.

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HAPC's Board of Directors believes that each of the above factors strongly supported its determination and recommendation to approve the acquisition. HAPC's Board of Directors did, however, consider the following potentially negative factors, among others, including the Risk Factors, in its deliberations concerning the acquisition:

*The risk that its public stockholders would vote against the acquisition and exercise their conversion rights.*

HAPC's Board of Directors considered the risk that the current public stockholders of HAPC would vote against the acquisition and demand to redeem their shares for cash upon consummation of the acquisition, thereby depleting the amount of cash available to the combined company following the acquisition. HAPC's Board of Directors decided to proceed with the acquisition in part because (i) it believed that suitability of the acquisition as a business opportunity for HAPC increased the likelihood that less than 20% of the HAPC stockholders would exercise their conversion rights and (ii) I-Flow agreed to increase the amount of the promissory note to fund the acquisition from \$55,000,000 to \$75,000,000, the difference used to pay those HAPC stockholders who convert their shares.

*Certain officers and directors of HAPC may have different interests in the acquisition than the HAPC stockholders.*

HAPC's Board of Directors considered the fact that certain officers and directors of HAPC may have interests in the acquisition that are different from, or are in addition to, the interests of HAPC stockholders generally, including the matters described under "Interests of HAPC Directors and Officers in the Acquisition" above. However, this fact would exist with respect to an acquisition of any target company.

*The limitations on indemnification set forth in the Stock Purchase Agreement.*

HAPC's Board of Directors considered the limitations on indemnification set forth in the Stock Purchase Agreement. See the section entitled "The Stock Purchase Agreement - Indemnification". The Board of Directors of HAPC determined that any definitive agreement with any target company would contain similar limitations.

After deliberation, the HAPC Board of Directors determined that these potentially negative factors were outweighed by the potential benefits of the acquisition, including the opportunity for HAPC stockholders to share in InfuSystem's future possible growth and anticipated profitability.

## **Fairness Opinion**

BNY Capital Markets, Inc. or BNY, rendered its opinion to the HAPC Board of Directors that, as of the date of its opinion, and based on conditions that existed as of that date, upon and subject to the considerations described in its opinion and based upon such other matters as BNY considered relevant, the per share acquisition consideration to be paid by HAPC in the acquisition pursuant to the Stock Purchase Agreement is fair to HAPC from a financial point of view. The full text of BNY's written opinion, dated September 29, 2006, to the HAPC Board of Directors, which sets forth the procedures followed, assumptions made, matters considered and limitations on the review undertaken, is attached as Annex C. See section entitled "BNY Capital Markets, Inc. Fairness Opinion".

## **Acquisition Financing**

The acquisition will be financed in part with the secured promissory note to be issued to I-Flow (the "Promissory Note"). The amount of the note will depend upon the number of HAPC stockholders who exercise their conversion rights and the principal amount of the Promissory Note will not exceed \$75,000,000. In the event that no stockholders exercise their conversion rights, the amount of the Promissory Note will be \$55,000,000 and the remaining \$85,000,000 of the purchase price will be paid in cash and from the proceeds in the trust account.



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The Promissory Note will be made by Acquisition Sub simultaneously with its merger with into InfuSystem, and as a result, will become the obligation of InfuSystem as the entity surviving the merger. HAPC will guarantee InfuSystem's obligations under the Promissory Note. The Promissory Note will mature four years after the closing and bear interest at a floating rate equal to LIBOR plus 5.5% or the Base rate plus 4.5% calculated on a 360 day basis; *provided, however*, that LIBOR shall be no less than 3% and the Base rate no less than 4%. The Promissory Note will be subject to prepayment premiums and, under certain circumstances, will be subject to mandatory prepayment. InfuSystem and HAPC will make certain representations, warranties and covenants to I-Flow that are usual and customary for transactions of this type. The Promissory Note will be secured by all of the assets of InfuSystem and HAPC.

The occurrence of the following events, among others, will constitute a default under the Promissory Note: (i) failure to pay when due any principal, interest, premium or fees; (ii) failure to comply with the covenants and other agreements in the Promissory Note; (iii) material breach of a representation of warranty; (iv) liquidation, bankruptcy or reorganization of InfuSystem or HAPC; or (v) the impairment of any of the collateral pledged by InfuSystem and HAPC as security for the Promissory Note. In the event of a default, the applicable interest rate of the Promissory Note will be increased by 2%.

In connection with I-Flow's commitment to accept the Promissory Note, HAPC paid a \$100,000 delivery fee to I-Flow on October 4, 2006. HAPC must also pay I-Flow a Ticking Fee (between 0.50% and 1.0% per annum of the of the maximum principal amount of the Promissory Note which is \$75,000,000) from September 29, 2006, the date that the Stock Purchase Agreement was executed, 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. The Promissory Note will be subject to a facility fee equal to 2.50% of the actual principal amount payable at closing. Additionally, InfuSystem will pay I-Flow an administrative fee of \$75,000 at the closing and on each anniversary of the closing for the term of the Promissory Note.

### **Appraisal or Dissenters Rights**

No appraisal rights are available under the Delaware General Corporation Law for the stockholders of HAPC in connection with the acquisition proposal.

### **Accounting Treatment of the Acquisition**

The acquisition of InfuSystem will be treated as a purchase by HAPC.

### **United States Federal Income Tax Consequences of the Acquisition**

As the stockholders of HAPC are not receiving any consideration or exchanging any of their outstanding securities in connection with the acquisition of InfuSystem and are simply being asked to vote on the matters, it is not expected that the stockholders will have any tax related issues as a result of voting on these matters. However, if you vote against the acquisition proposal and elect a cash conversion of your shares of HAPC into your pro-rata portion of the trust account and as a result receive cash in exchange for your HAPC shares, there may be certain tax consequences, such as realizing a loss on your investment in HAPC's shares. **WE URGE YOU TO CONSULT YOUR OWN TAX ADVISORS REGARDING YOUR PARTICULAR TAX CONSEQUENCES.**

### **Regulatory Matters**

The acquisition and the transactions contemplated by the Stock Purchase Agreement are not subject to any federal or state regulatory requirements or approvals, except for filings necessary to effectuate the merger of Acquisition Subsidiary and InfuSystem and the amendment to the amended and restated certificate of incorporation proposal, with the Secretary of State of the State of Delaware and the Secretary of State of the State of California, as applicable.

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**Consequences if Acquisition Proposal is not Approved**

If the acquisition proposal is not approved by the stockholders, HAPC will not acquire InfuSystem and HAPC will continue to seek other potential business combinations. In addition, HAPC will not consummate the stock option or amended and restated certificate of incorporation proposals. In such an event there is no assurance, and management of HAPC believes that it is unlikely, that HAPC will have the time, resources or capital available to find a suitable business combination partner before (i) the proceeds in the trust account are liquidated to holders of shares purchased in HAPC's initial public offering and (ii) HAPC is dissolved pursuant to the trust agreement and in accordance with HAPC's amended and restated certificate of incorporation.

**Required Vote**

The approval for the acquisition of InfuSystem will require the affirmative vote of holders as of the Record Date of a majority of the shares outstanding as of the Record Date of HAPC's common stock that were issued in HAPC's initial public offering that are present in person or by proxy at the meeting and that vote on the proposal. In addition, each HAPC stockholder who holds shares of common stock issued in HAPC's initial public offering or purchased following such offering in the open market has the right to vote against the acquisition proposal and, at the same time, demand that HAPC convert such stockholder's shares into cash equal to a pro rata portion of the trust account, including interest, in which a substantial portion of the net proceeds of HAPC's initial public offering is deposited. These shares will be converted into cash only if the acquisition is completed. Based on the amount of cash held in the trust account as of October 31, 2006, without taking into account any interest accrued after such date, stockholders who vote against the acquisition proposal and elect to convert such stockholder's shares as described above will be entitled to convert each share of common stock they hold into approximately \$5.81 per share, less income taxes owed on accrued interest. However, if the holders of 3,375,050 or more shares of common stock issued in HAPC's initial public offering (an amount equal to 20% or more of the total number of shares issued in the initial public offering), vote against the acquisition and demand conversion of their shares into a pro rata portion of the trust account, then HAPC will not be able to consummate the acquisition.

An abstention with respect to the acquisition proposal will have no effect since the acquisition proposal requires the affirmative vote of a majority of the votes cast by holders of eligible shares. A broker non-vote or a failure to vote will have no impact upon the approval of the acquisition proposal.

**Recommendation**

After careful consideration, HAPC's Board of Directors has determined unanimously that the acquisition proposal is fair to, and in the best interests of, HAPC and its stockholders. HAPC's Board of Directors has approved and declared advisable the acquisition proposal and unanimously recommends that you vote or give instructions to vote **FOR** the proposal to approve the acquisition.

The foregoing discussion of the information and factors considered by the HAPC Board of Directors is not meant to be exhaustive, but includes the material information and factors considered by the HAPC Board of Directors.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR THE ACQUISITION PROPOSAL TO ACQUIRE ALL OF THE OUTSTANDING CAPITAL STOCK OF INFUSYSTEM.**

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**THE STOCK PURCHASE AGREEMENT**

The following summary of the material provisions of the Stock Purchase Agreement is qualified by reference to the complete text of the Stock Purchase Agreement, a copy of which is attached as Annex A to this proxy statement. All stockholders are encouraged to read the Stock Purchase Agreement in its entirety for a more complete description of the terms and conditions of the acquisition.

**Structure of the Acquisition**

Acquisition Sub will acquire 100% of the issued and outstanding capital stock of InfuSystem from I-Flow. Concurrently with Acquisition Sub's acquisition of all of the issued and outstanding capital stock of InfuSystem, 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.

**Purchase Price and Financing**

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") made by Acquisition Sub at the closing and payable to I-Flow in a principal amount equal to \$55,000,000 plus the amount actually paid to HAPC's stockholders who vote against the acquisition and demand that their shares be converted into the right to receive a pro rata portion of the net proceeds of HAPC's initial public offering held in the trust account, 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. The Promissory Note will be made by Acquisition Sub simultaneously with its merger with into InfuSystem and as a result, will become the obligation of InfuSystem as the entity surviving the merger. HAPC will guarantee InfuSystem's obligations under the Promissory Note.

The Promissory Note will mature four years after the closing and bear interest at a floating rate equal to LIBOR plus 5.5% or the Base rate plus 4.5% calculated on a 360 day basis; *provided, however*, that LIBOR shall be no less than 3% and the Base rate no less than 4%. The principal amount will be amortized quarterly as follows: 5% during year one; 10% during year two; 10% during year three; and 15% during year four with the remaining principal amount due at the maturity date. In the event that the loan is prepaid prior to the third anniversary of the closing, InfuSystem will pay I-Flow a prepayment premium equal to (i) 2% of the principal amount of such repayment, if such repayment occurs on or prior to one year after the closing or (ii) 1% of the principal amount of such repayment, if such repayment occurs after the date which is more than one year after the closing but on or prior to the date which is three years after the closing. The Promissory Note is subject to mandatory prepayments in amounts to be determined in the event that InfuSystem or I-Flow engage in any asset sale which is not in the ordinary course of business, receive insurance proceeds that are not reinvested in the business of InfuSystem or HAPC, receive cash proceeds from the sale of any equity, receive tax refunds, incur indebtedness, enter into a revolving credit facility or have certain excess cash flows.

The Promissory Note will be secured by all of the assets of InfuSystem and HAPC. InfuSystem and HAPC will make certain representations and warranties to I-Flow including, among others, (i) due corporate organization and authorization; (ii) execution, delivery and enforceability of the Promissory Note; (iii) financial condition and solvency; (iv) no material adverse change in or effect on the business, condition (financial or otherwise), assets, liabilities (actual or contingent), operations, management, performance, properties, or prospects of HAPC, since December 31, 2005; and (v) title to properties. InfuSystem and HAPC will also make certain covenants to I-Flow customary for a transaction of this type and including, among others, maintenance of certain leverage ratios and fixed charge coverage ratios as well as certain levels of liquidity and EBITDA.

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The occurrence of the following events, among others, will constitute a default under the Promissory Note: (i) failure to pay when due any principal, interest, premium or fees; (ii) failure to comply with the covenants and other agreements in the Promissory Note; (iii) material breach of a representation of warranty; (iv) liquidation, bankruptcy or reorganization of InfuSystem or HAPC; or (v) the impairment of any of the collateral pledged by InfuSystem and HAPC as security for the Promissory Note. In the event of a default, the applicable interest rate of the Promissory Note will be increased by 2%.

In connection with I-Flow's commitment to accept the Promissory Note, HAPC paid a \$100,000 delivery fee to I-Flow on October 4, 2006. HAPC must also pay I-Flow a Ticking Fee (between 0.50% and 1.0% per annum of the maximum principal amount of the Promissory Note which is \$75,000,000) from September 29, 2006, the date that the Stock Purchase Agreement was executed, 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. The Promissory Note will be subject to a facility fee equal to 2.50% of the actual principal amount payable at closing. Additionally, InfuSystem will pay I-Flow an administrative fee of \$75,000 at the closing and on each anniversary of the closing for the term of the Promissory Note.

## **Closing of the Acquisition**

Subject to the provisions of the Stock Purchase Agreement, the closing will take place no later than April 30, 2007, or, as soon as practicable after all the conditions described under the section "The Stock Purchase Agreement Conditions to Completion of the Acquisition" have been satisfied, unless HAPC and I-Flow agree to another time.

## **Representations and Warranties**

The Stock Purchase Agreement contains a number of representations and warranties that each of HAPC, Acquisition Sub, I-Flow and InfuSystem make to each other. These representations and warranties include and relate to:

organization and qualification;

authorization, execution, delivery and enforceability of the Stock Purchase Agreement and related agreements including the Amended and Restated Services Agreement and License Agreement;

absence of conflicts or violations under organizational documents, certain agreements and applicable laws or decrees, as a result of the contemplated transaction; receipt of all required consents and approvals;

capitalization and ownership of capital stock (I-Flow and InfuSystem);

financing (HAPC and Acquisition Sub only);

investment intent (HAPC and Acquisition Sub only);

brokers;

access to information (HAPC and Acquisition Sub only);

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equity interests in third parties (I-Flow and InfuSystem only);

financial statements (I-Flow and InfuSystem only);

no undisclosed liabilities (I-Flow and InfuSystem only);

absence of certain changes or events since June 30, 2006 (I-Flow and InfuSystem only);

compliance with law; permits (I-Flow and InfuSystem only);

litigation (I-Flow and InfuSystem only);

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employee benefit plans (I-Flow and InfuSystem only);

labor and employment (I-Flow and InfuSystem only);

insurance (I-Flow and InfuSystem only);

real property (I-Flow and InfuSystem only);

intellectual property (I-Flow and InfuSystem only);

taxes (I-Flow and InfuSystem only);

environmental matters (I-Flow and InfuSystem only);

material contracts (I-Flow and InfuSystem only);

accounts receivable; suppliers (I-Flow and InfuSystem only);

inventories (I-Flow and InfuSystem only);

products (I-Flow and InfuSystem only);

minute books; books and records (I-Flow and InfuSystem only);

bank accounts; powers of attorney (I-Flow and InfuSystem only);

affiliate transactions (I-Flow and InfuSystem only);

tangible personal property (I-Flow and InfuSystem only);

accuracy of all information provided to HAPC and Acquisition in connection with preparation of proxy statement (I-Flow and InfuSystem only);

HAPC's and Acquisition Subs own investigation and due diligence process (HAPC and Acquisition Sub only);

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accuracy of all information contained in proxy statement (HAPC and Acquisition Sub only);

no other representations and warranties (HAPC and Acquisition Sub only); and

knowledge of breaches.

### **Materiality and Material Adverse Effect**

Certain of the representations and warranties are qualified by materiality or material adverse effect. Subject to certain exceptions set forth in the Stock Purchase Agreement, a material adverse effect means, with respect to InfuSystem, any event, change, circumstance, effect or state of facts, or any combination of the foregoing, that is materially adverse to (i) the business, assets, liabilities, condition (financial or otherwise) or results of operations of InfuSystem, taken as a whole, or (ii) the ability of InfuSystem to timely perform its obligations under the Stock Purchase Agreement, Amended and Restated Services Agreement or the License Agreement to which it is, or will be, a party or to consummate the transactions contemplated hereby or thereby.

With respect to InfuSystem, a material adverse effect does not include the effect of any circumstance, change, development or event arising out of or impacting:

the markets or industry in which InfuSystem operates its business;

general economic conditions, including such conditions as are related to InfuSystem's business;

national or international political or social conditions, including the engagement by the United States in hostilities, whether or not pursuant to the declaration of a national emergency or war, or the occurrence of any military or terrorist attack upon the United States or any of its territories, possessions or diplomatic or consular offices or upon any military installation, equipment or personnel of the United States, or escalation of any existing hostilities;

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financial, banking or securities markets (including any disruption thereof and any decline in the price of any security or any market index);

natural disasters, acts of God or other events not within the reasonable control of InfuSystem, including, but not limited to, recalls or shortage of drugs;

any change in applicable laws or accounting rules;

the taking of any action required by Stock Purchase Agreement or expressly consented to by HAPC or Acquisition Sub;

the public announcement of the entering into of the Stock Purchase Agreement or the transactions contemplated by the Stock Purchase Agreement; and

any adverse change in or effect on InfuSystem's business that is cured by I-Flow or InfuSystem to the reasonable satisfaction of the HAPC before the earlier of the closing or the termination of the Stock Purchase Agreement.

Additionally, no material adverse effect shall be deemed to have occurred upon the occurrence of any one or more of the following events (or combination thereof): (i) the threatened or actual reduction in reimbursements collectible by InfuSystem that is not specific to, or targeted solely at, InfuSystem as a result of any change or development not within the reasonable control of the InfuSystem, including, without limitation, changes or developments in applicable laws or general economic conditions or (ii) the resignation of any employee of the Company as a result of the transactions contemplated by the Stock Purchase Agreement or otherwise.

A material adverse effect means, with respect to HAPC, Acquisition Sub or I-Flow, any event, change, circumstance, effect or state of facts that is materially adverse to the ability of the HAPC, Acquisition Sub or I-Flow, as applicable, to timely perform in all material respects its obligations under the Stock Purchase Agreement, the License Agreement and Amended and Restated Services Agreement to which it is, or will be, a party or to consummate the transactions contemplated thereby.

**Interim Covenants**

The parties covenant that, between the date of the Stock Purchase Agreement and the closing;

the business of InfuSystem will continue to be conducted in the ordinary course;

HAPC and Acquisition Sub will have access to the facilities, books and records of InfuSystem;

the disclosure schedules to the Stock Purchase Agreement will be updated as necessary;

the parties will notify one another in the event that a party becomes aware of a breach in a representation or warranty that it has made in the Stock Purchase Agreement;

the parties will notify one another in the event that a party becomes aware of circumstances that will prevent fulfillment of the conditions set forth under "The Stock Purchase Agreement Conditions to the Completion of the Acquisition";



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if the Stock Purchase Agreement is terminated before the closing, HAPC will not for a period of two years thereafter, unless permitted in writing by I-Flow, solicit the employment of any person who is or was an employee of InfuSystem or I-Flow during such two year period;

the parties agree to keep any confidential information obtained from the other in the course of negotiating the Stock Purchase Agreement subject to the terms of the Confidentiality Agreement dated as of May 3, 2006 by and between HAPC and I-Flow;

the parties agree to use all commercially reasonable efforts to obtain all necessary third party and governmental consents to the consummation of the transactions contemplated by the Stock Purchase Agreement;

the parties agrees to consult with the other before releasing any press release or otherwise making any public statements with respect to the financing of the acquisition;

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the parties agree to use all commercially reasonable efforts to obtain the release of I-Flow from its obligations under any bonds, guarantees or similar agreements that I-Flow has entered into on behalf of InfuSystem;

I-Flow agrees to cancel all liabilities owed by or to InfuSystem to or from I-Flow or any of its affiliates, without payment;

I-Flow agrees that it will not, and it will cause InfuSystem or its directors, officers, employees or agent not to: (i) solicit any inquiries with respect to a merger, acquisition, consolidation, recapitalization, liquidation, dissolution, equity investment or similar transaction involving, or any purchase of all or any substantial portion of the assets or any equity securities of, InfuSystem (a Proposal); (ii) engage in any negotiations concerning, or provide any confidential information or data to, or have any substantive discussions with, any person relating to a Proposal; (iii) otherwise cooperate in any effort or attempt to make, implement or accept a Proposal; or (iv) enter into contract with any Person relating to a Proposal; and

I-Flow agrees that to the extent that any property or assets of InfuSystem, other than InfuSystem's books and records, are in the possession of I-Flow as of the date of the execution of the Stock Purchase Agreement, I-Flow agrees to deliver such property or assets to InfuSystem prior to closing.

### **Indemnification of Officers and Directors**

From and after the closing, HAPC will, and cause InfuSystem to, indemnify and defend each person who was at the time of the execution of the Stock Purchase Agreement, or at any time prior thereto, or who becomes prior to the closing, an officer or director of InfuSystem against any and all losses arising out of or relating to any threatened or actual suit, arising out of or relating in whole or in part to the fact that such person is or was a director or officer of InfuSystem.

### **Employees**

HAPC will provide, or cause to be provided, to the individuals who are actively employed by InfuSystem at the time of the closing, compensation and benefits on terms no less favorable than those provided by InfuSystem prior to the closing, for a period of 12 months.

### **Non-Competition**

During the period commencing immediately after the closing and ending on the third anniversary of the closing, I-Flow will not, nor will it cause its affiliates to, have any direct ownership in or manage, operate, finance or control any business of billing to third party insurance carriers for the use of electronic pumps for chemotherapy and other ancillary medical treatments in the United States.

### **Insurance**

In the event that I-Flow is entitled, under the terms of occurrence based insurance policies in effect on or prior to the closing, to coverage for losses suffered by InfuSystem arising out of any occurrences covered by such policies occurring prior to closing, I-Flow will take such actions to recover such losses on behalf of InfuSystem pursuant to such policies as it would use or take in conducting its own business if such losses were suffered by I-Flow, and will deliver the proceeds thereby recovered to the HAPC.

### **No Claims Against the Trust Account**

Each of I-Flow and InfuSystem agree that it does not have any right, title, interest or claim of any kind in or to any monies in the trust account containing the proceeds of HAPC's initial public offering in the amount of approximately \$96,200,000, and waives any claim it may have in the future as a result of, or arising out of, any negotiations, contracts with HAPC and will not seek recourse against the trust account for any reason whatsoever.

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### **Sufficient Cash**

Each of HAPC and Acquisition Sub agree that immediately after the closing, either of them will provide cash to InfuSystem in an amount sufficient to allow InfuSystem to carry on its business, pay its creditors existing as of the closing date in ordinary course and continue as a going concern.

### **Stockholder Approval, Proxy and Special Meeting**

HAPC's amended and restated 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 HAPC's initial public offering that vote on the issue. The acquisition cannot be completed if holders of 20% or more of the shares of HAPC common stock sold in the initial public offering vote against the acquisition and, as permitted by the amended and restated certificate of incorporation, demand that their shares be converted into the right to receive a pro rata portion of the net proceeds of the initial public offering held in a trust account.

HAPC has agreed to prepare and file a proxy statement with the SEC in order to convene a special meeting of HAPC's stockholders to vote on the acquisition proposal. I-Flow has agreed to provide HAPC with all information related to InfuSystem necessary to prepare the proxy statement. HAPC's Board of Directors has agreed, subject to its fiduciary duties and applicable law, to recommend that HAPC stockholders vote to approve the acquisition proposal. All fees and expenses incurred by HAPC, I-Flow and InfuSystem in connection with the preparation of the proxy statement (with the exception of audit fees, as described below) and the solicitation of HAPC stockholder approval, will be borne by HAPC.

### **Assignment of Non-Disclosure Agreements**

I-Flow agrees to use commercially reasonable efforts to assign to InfuSystem all of I-Flow's rights and obligations under any non-disclosure or confidentiality agreements that I-Flow has entered into with potential purchasers of InfuSystem to the extent such non-disclosure agreements relate to InfuSystem and confidential information of InfuSystem.

### **Use of InfuSystem Name and Trademark**

I-Flow agrees to immediately cease use of the trade name and trademark InfuSystem following the closing.

### **Audit Fees and Costs**

HAPC agrees to bear fifty percent (50%) of all fees and costs paid to auditors by I-Flow and/or InfuSystem relating to the audit of InfuSystem's financial statements as of and for the years ended December 31, 2003 and December 31, 2004. I-Flow agrees to bear all fees and costs incurred in connection with the audit of InfuSystem's financial statements as of and for the year ended December 31, 2005.

### **Indemnification**

The parties agree to indemnify one another against any and all damages or liabilities arising out of (i) breach of a representation, warranty or covenant made in the Stock Purchase Agreement, (ii) failure to perform or satisfy a covenant made in the Stock Purchase Agreement or (iii) incurrence of broker's fees in connection with the transactions contemplated by the Stock Purchase Agreement.

The maximum aggregate amount that the parties may recover from one another in connection with the breaches of representations and warranties and certain covenants is 15% of the purchase price. The parties will only become liable to one another for damages resulting from breaches of representations of warranties in excess of \$1,500,000. There is no minimum or maximum amount of damages recoverable by the parties for breaches of certain representations and warranties, most covenants or the incurrence of broker's fees.

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Subject to certain exceptions, the representations, warranties and covenants of the parties will survive the closing and expire on March 31, 2008.

**Tax Matters**

I-Flow agrees to indemnify InfuSystem and HAPC against taxes relating to taxable periods ending on or before the closing date, taxes resulting from any preclosing affiliations of InfuSystem with other entities and taxes resulting from an election under Section 338(h)(10) of the Internal Revenue Code of 1986, as amended (the Code) with respect to the purchase by HAPC of the stock of InfuSystem. This tax indemnity is limited by various items, including amounts reserved by InfuSystem against certain potential liabilities in respect of Michigan Use Taxes. HAPC agrees to indemnify I-Flow against taxes incurred by InfuSystem in respect of taxable periods beginning on or after the closing date. In general, the parties agree to share responsibility for taxes incurred by InfuSystem for taxable periods including but not ending on the closing date by apportioning those taxes assuming that InfuSystem were to close the books as of the end of the closing date, but on a per diem basis in respect of property taxes.

I-Flow will prepare and file tax returns for InfuSystem for taxable periods ending on or before the closing date to the extent InfuSystem is included in returns filed by I-Flow on a consolidated or combined basis. HAPC files other tax returns of InfuSystem. The parties have various rights of oversight and review in respect of the tax returns filed by each other.

At the election of HAPC, the parties will enter into an election under Section 338(h)(10) of the Code with respect to the sale of the stock of InfuSystem by I-Flow to HAPC. The parties have agreed upon a tentative allocation of the purchase price among the assets of I-Flow necessitated by this election, subject to adjustment as the figures are finalized.

The parties have agreed to provide each other with various cooperation and assistance if necessary in respect of tax filings or audits with respect to InfuSystem. I-Flow has agreed to terminate all tax sharing agreements relating to InfuSystem so that any such agreements will not have effect after the closing.

**Conditions to the Completion of the Acquisition**

The obligations of HAPC, Acquisition Sub, I-Flow and InfuSystem to complete the acquisition are subject to the satisfaction or waiver of specified conditions before completion of the acquisition, including the following:

*Conditions to HAPC's, Acquisition Sub's, I-Flow's and InfuSystem's obligations:*

the absence of any law preventing consummation of the acquisition; and

the receipt of all material consents of, registrations, declarations or filings with, any governmental entity legally required for the consummation of the acquisition.

*Conditions to HAPC's and Acquisition Sub's obligations:*

The obligation of HAPC and Acquisition Sub to complete the acquisition is further subject to the following conditions:

the representations and warranties made by I-Flow and InfuSystem that are qualified as to materiality must be true and correct, and those not qualified as to materiality must be true and correct in all material respects, both when made and as of the closing date of the acquisition, except representations and warranties that address matters as of another date, which must be true and correct as of such other date, and HAPC must have received a certificate from each of I-Flow and InfuSystem to that effect;

I-Flow and InfuSystem must have performed in all material respects all obligations required to be performed by each of them under the terms of the Stock Purchase Agreement;



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HAPC and Acquisition Sub must have received all such documents as HAPC and Acquisition Sub may reasonably request evidencing the satisfaction of I-Flow's and InfuSystem's obligations under the terms of the Stock Purchase Agreement;

HAPC must have received the affirmative vote in favor of the acquisition by the holders of at least the majority of the number of shares of common stock that were issued in HAPC's public offering that vote on the proposal, provided, less than 20% of the shares of common stock issued in HAPC's initial public offering vote against the acquisition proposal and elect a cash conversion of their shares;

I-Flow must have obtained the consent of each person whose consent is required under certain material contracts to which InfuSystem is a party and provided evidence of such consents to HAPC;

I-Flow must have delivered to HAPC evidence of the release of all encumbrances (other than certain permitted encumbrances, including those created by HAPC or Acquisition Sub) with respect to the property and assets of InfuSystem and all of the issued and outstanding capital stock of InfuSystem;

I-Flow must have delivered to HAPC evidence of the repayment or release of all outstanding indebtedness of InfuSystem (other than certain permitted indebtedness);

I-Flow must have delivered to HAPC evidence of the repayment or other cancellation of all liabilities owed by or to InfuSystem to or from I-Flow or any of its affiliates;

I-Flow must have delivered to HAPC or Acquisition Sub a certificate of the secretary of I-Flow dated as of the closing date and certifying that attached thereto are true and complete copies of all resolutions adopted by the Board of Directors of I-Flow authorizing the execution, delivery and performance of the Stock Purchase Agreement and that all such resolutions are in full force and effect and are all the resolutions adopted in connection with the transactions contemplated by the Stock Purchase Agreement;

I-Flow must have delivered to HAPC a duly completed and executed certification of non-foreign status pursuant to Section 1.1445-2(b)(2) of the Treasury regulations; and

I-Flow must have delivered to HAPC a duly completed and executed Form 8023, if requested by HAPC.

*Conditions to I-Flow's and InfuSystem's Obligations:*

The obligation of I-Flow and InfuSystem to complete the acquisition is further subject to the following conditions:

the representations and warranties made by HAPC and Acquisition Sub that are qualified as to materiality must be true and correct, and those not qualified as to materiality must be true and correct in all material respects, both when made and as of the closing date of the acquisition, except representations and warranties that address matters as of another date, which must be true and correct as of such other date, and I-Flow must have received a certificate from each of HAPC and Acquisition Sub to that effect;

HAPC or Acquisition Sub must have delivered the purchase price of \$140,000,000 in cash (subject to certain working capital adjustments to be determined at the time of closing) or in a combination of cash and a promissory note to I-Flow;

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HAPC must have executed and delivered to I-Flow a guaranty of amounts due under the promissory note;

I-Flow must have received an executed counterpart signature page by InfuSystem to each of the License Agreement and Amended and Restated Services Agreement; and

I-Flow must have received all such documents as I-Flow may reasonably request evidencing the satisfaction of HAPC's and Acquisition Subs's obligations under the terms of the Stock Purchase Agreement.

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### **Termination**

#### *Termination by I-Flow or HAPC*

The Stock Purchase Agreement may be terminated at any time prior to the closing by mutual written consent of I-Flow or HAPC. Additionally, I-Flow or HAPC may terminate the Stock Purchase Agreement prior to closing if (i) the closing has not occurred by April 30, 2007 or (ii) any governmental authority issues an order, ruling or takes other action that prohibits the consummation of the transactions contemplated by the Stock Purchase Agreement.

#### *Termination by I-Flow*

I-Flow may terminate the Stock Purchase Agreement prior to the closing if (i) HAPC or Acquisition Sub breaches or fails to perform in any respect any of its representations, warranties or covenants contained in the Stock Purchase Agreement where such breach or failure to perform would result in a failure of a condition precedent to the closing, cannot be cured within 15 calendar days following delivery of written notice of such breach and such breach has not been waived by I-Flow or (ii) any of the conditions precedent to closing have become incapable of fulfillment.

#### *Termination by HAPC*

HAPC may terminate the Stock Purchase Agreement prior to the closing if (i) I-Flow or InfuSystem breaches or fails to perform in any respect any of its representations, warranties or covenants contained in the Stock Purchase Agreement, License Agreement or the Amended and Restated Services Agreement where such breach or failure to perform would result in a failure of a condition precedent to the closing, cannot be cured within 15 calendar days following delivery of written notice of such breach and such breach has not been waived by I-Flow or (ii) any of the conditions precedent to closing have become incapable of fulfillment.

### **Effect of Termination**

In the event that the Stock Purchase Agreement is terminated for any of the reasons enumerated above, the Stock Purchase Agreement will become void, provided, however, the parties shall continue to remain bound by the provisions relating to confidentiality, public announcements, fees and expenses, notices, governing law, third party beneficiaries and submission to jurisdiction.

Additionally, in the event that the Stock Purchase Agreement is terminated (i) because of HAPC's failure to obtain the stockholder approval required by the terms of the Stock Purchase Agreement ( 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.

### **Guaranty**

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



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Guaranty. Messrs. McDevitt and Harris have applied to JPMorgan Chase Bank to issue a letter of credit for the benefit of I-Flow which I-Flow may draw upon in the event that the \$3,000,000 or \$1,000,000 break up fee, as the case may be, is not paid when due and payable. Messrs. McDevitt and Harris will deliver the letter of credit to I-Flow once it has been issued by JPMorgan Chase.

## **Fees and Expenses**

All fees and expenses incurred in connection with the Stock Purchase Agreement will be paid by the party incurring those fees and expenses, regardless of whether the transactions contemplated by the Stock Purchase Agreement are consummated.

## **Amendment and Modification**

The Stock Purchase Agreement may not be amended or modified except by an instrument in writing signed on behalf of each of the parties thereto.

## **Waiver**

Any agreement on the part of any party to the Stock Purchase Agreement to waive a right or remedy under the Stock Purchase Agreement will only be valid if set forth in writing and signed by a duly authorized officer on behalf of such party.

No failure or delay of any party in exercising any right or remedy under the Stock Purchase Agreement will operate as a waiver of such right or remedy, nor will any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such right or power, preclude any other or further exercise of such right or power.

## **Governing Law**

The laws of the State of New York will govern disputes and controversies arising out of the Stock Purchase Agreement.

## **Assignment**

HAPC or the Acquisition Sub may assign the Stock Purchase Agreement to any subsidiary of HAPC without the prior consent of I-Flow or InfuSystem. I-Flow may assign any of its rights under the Stock Purchase Agreement, including the right to receive the purchase price and/or the repayment of the promissory note, to one of its affiliates without the consent of HAPC or InfuSystem. In all other instances, neither the Stock Purchase Agreement, nor any of the rights or obligations thereunder, may be assigned by any party without the prior written consent of the other parties, and any such assignment without such prior written consent will be null and void.

## **Ancillary Agreements**

### *Amended and Restated Services Agreement*

I-Flow and InfuSystem will enter into an Amended and Restated Services Agreement pursuant to which InfuSystem will agree to continue to provide to I-Flow, from and after the closing, the billing and collection services and management services InfuSystem has been providing prior to the date of the closing. The term will be 3 years, but the agreement may be terminated in 18 months. Fees are set at the higher of a cost-plus or percentage of collections.

### *License Agreement*

I-Flow and InfuSystem will enter a License Agreement pursuant to which InfuSystem will grant to I-Flow a license to InfuSystem's intellectual property related to the third-party billing and collection services and management services currently provided by InfuSystem to I-Flow with respect to the field of acute post-operative pain management and in other product fields including, without limitation, wound site management and post-operative surgical treatments.

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**BNY CAPITAL MARKETS, INC. FAIRNESS OPINION**

BNY Capital Markets, Inc. ( BNY ) was retained by HAPC in connection with its proposed acquisition of InfuSystem, Inc. HAPC chose to retain BNY based on BNY's reputation and experience in the healthcare mergers and acquisitions market. Specifically, HAPC requested BNY to determine whether the consideration to be paid by HAPC in connection with the acquisition is fair to HAPC from a financial point of view. On September 29, 2006, at a meeting of the HAPC Board of Directors held to evaluate the acquisition, BNY rendered to the board an oral opinion, which opinion was confirmed by delivery of a written opinion dated September 29, 2006, to the effect that, as of that date and based on and subject to the matters described in its opinion, the consideration to be paid by HAPC in connection with the acquisition was fair, from a financial point of view to HAPC.

The full text of BNY's written opinion, dated September 29, 2006, to the HAPC Board of Directors, which sets forth the procedures followed, assumptions made, matters considered and limitations on the review undertaken, is attached as Annex C. You are encouraged to read this opinion carefully in its entirety. The opinion was provided to the board in connection with the board's evaluation of the acquisition and relates only to the fairness to HAPC, from a financial point of view, of the consideration to be paid by HAPC, does not address any other aspect of the acquisition and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act with respect to any matters relating to the acquisition. The opinion is neither a recommendation nor advice as to whether HAPC shareholders should exercise their right to convert their shares into cash, pursuant to the HAPC charter. The summary of BNY's opinion in this proxy statement is qualified in its entirety by reference to the full text of the opinion.

In arriving at its opinion, BNY reviewed a draft dated September 28, 2006, of the stock purchase agreement and drafts of certain related documents, as well as certain publicly available business and financial information relating to InfuSystem. BNY also reviewed certain other information relating to InfuSystem, including financial forecasts provided to or discussed with BNY by HAPC management and InfuSystem. In addition, BNY reviewed certain financial projections presented in the Infusystem Confidential Information Memorandum and discussed InfuSystem's business and prospects with HAPC management and Company management. BNY also considered certain financial data of InfuSystem and compared that data with similar data for other publicly held companies in businesses BNY deemed similar to InfuSystem, and considered, to the extent publicly available, the financial terms of certain other business combinations and transactions which had been effected or announced. BNY also considered such other information, financial studies, analyses and investigations and financial, economic and market criteria as it deemed relevant.

In connection with its review, BNY did not assume any responsibility for independent verification of any of the information it reviewed and relied on that information being complete and accurate in all material respects. With respect to the financial forecasts for InfuSystem that BNY reviewed, HAPC management advised BNY, and BNY assumed, that the forecasts were reasonably prepared on bases reflecting the best currently available estimates and judgments of HAPC management as to InfuSystem's future financial performance. BNY also assumed, with HAPC's consent, that in the course of obtaining any regulatory or third party consents, approvals or agreements in connection with the acquisition, no modification, delay, limitation, restriction or condition would be imposed that would have an adverse effect on InfuSystem or the acquisition and that the acquisition would be consummated in accordance with the terms of the stock purchase agreement, without waiver, modification, amendment or adjustment of any material term, condition or agreement therein. In addition, BNY was not requested to make, and did not make, an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of InfuSystem, nor was BNY furnished with any such evaluations or appraisals. Representatives of HAPC advised BNY, and BNY assumed, that the stock purchase agreement and related documents, when executed, would conform to the drafts reviewed by BNY in all respects material to its analyses. BNY's opinion addressed only the fairness to HAPC, from a financial point of view, of the consideration paid by HAPC in the acquisition and did not address any other aspect or implication of the acquisition or any other agreement, arrangement or understanding entered into in connection with the acquisition or otherwise. The

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opinion was necessarily based upon information made available to BNY as of the date of the opinion and upon financial, economic, market and other conditions as they existed and could be evaluated on that date. BNY's opinion did not address the relative merits of the acquisition as compared to other business strategies or transactions that might be available to HAPC, nor did it address the underlying business decision of HAPC to proceed with the acquisition.

In preparing its opinion to the HAPC Board of Directors, BNY performed a variety of financial and comparative analyses, including those described below. The summary of BNY's analyses described below is not a complete description of the analyses underlying BNY's opinion. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to particular circumstances and, therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, BNY made qualitative judgments as to the significance and relevance of each analysis and factor that it considered. BNY arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole and did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis. Accordingly, BNY believes that its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying its analyses and opinion.

In its analyses, BNY considered industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of InfuSystem. No company, transaction or business used in BNY's analyses as a comparison is identical to InfuSystem or the acquisition, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analyzed. The estimates contained in BNY's analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, the estimates used in, and the results derived from, BNY's analyses are inherently subject to substantial uncertainty.

BNY's opinion and financial analyses were only one of many factors considered by the HAPC Board of Directors in its evaluation of the acquisition and should not be viewed as determinative of the views of HAPC with respect to the decision by HAPC to pursue the acquisition or the consideration to be paid by HAPC in connection with acquisition.

The following is a summary of the material financial analyses presented to the HAPC board in connection with BNY's opinion dated September 29, 2006:

The financial analyses summarized below include information presented in tabular format. In order to fully understand BNY's financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of BNY's financial analyses.

### *Discounted Cash Flow Analysis*

BNY calculated the estimated present value of the stand-alone, unlevered, after-tax free cash flows that InfuSystem could generate over calendar years 2007 through 2010 based on internal estimates developed by HAPC and provided to or discussed with BNY. A range of estimated terminal values for InfuSystem was

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calculated by multiplying InfuSystem's calendar year 2010 estimated earnings before net interest, income taxes, depreciation and amortization, commonly referred to as EBITDA, by selected multiples ranging from 8.0x to 9.0x. The estimated after-tax free cash flows and terminal values were then discounted to present value using discount rates of 13% to 15%. This analysis indicated the following total enterprise value range for InfuSystem as compared to the total enterprise value of the consideration to be paid in accordance with the acquisition:

<b>Implied Total Enterprise</b>	<b>Total Enterprise</b>
<b>Value Range</b>	<b>Value of Consideration to be Paid</b>
\$157.0 - \$185.0 million	\$140.0 million

BNY then performed two sensitivity analyses by discounting the projected stand-alone, unlevered, after-tax free cash flows by 15% annually over calendar years 2007 through 2010 and 30% annually over calendar years 2007 through 2010. Like the scenario above, a range of estimated terminal values for InfuSystem was calculated by multiplying InfuSystem's calendar year 2010 estimated earnings before net interest, income taxes, depreciation and amortization, commonly referred to as EBITDA, by selected multiples ranging from 8.0x to 9.0x. The estimated after-tax free cash flows and terminal values were then discounted to present value using discount rates of 13% to 15%. These two sensitivity analyses indicated the following total enterprise value range for InfuSystem as compared to the total enterprise value of the consideration to be paid in accordance with the acquisition:

<b>Implied Total Enterprise</b>	<b>Total Enterprise</b>
<b>Value Range after 15% Discount</b>	<b>Value of Consideration to be Paid</b>
\$133.0 - \$157.0 million	\$140.0 million

<b>Implied Total Enterprise</b>	<b>Total Enterprise</b>
<b>Value Range after 30% Discount</b>	<b>Value of Consideration to be Paid</b>
\$110.0 - \$130.0 million	\$140.0 million

*Selected Companies Analysis*

BNY reviewed the market values and trading multiples of the following five selected publicly held companies in the home healthcare industry:

Amedisys, Inc.

Apria Healthcare Group Inc.

Gentiva Health Services Inc.

Lincare Holdings Inc.

Option Care Inc.

BNY compared enterprise values, calculated as equity value plus debt, less cash and cash equivalents, as a multiple of the latest 12 months and estimated calendar years 2006 and 2007 EBITDA. BNY then applied ranges of selected multiples described above for the selected companies to corresponding financial data of InfuSystem based on internal estimates developed by HAPC. All multiples were based on closing stock prices on September 28, 2006. Financial data for the selected companies was based on publicly available research analysts' estimates, public filings and other publicly available information. Financial data for InfuSystem was based on internal estimates developed by HAPC. This analysis indicated

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the following total enterprise value range for InfuSystem, as compared to the total enterprise value of the consideration to be paid in accordance with the acquisition:

<b>Implied Total Enterprise</b>	<b>Total Enterprise</b>
<b>Value Range</b>	<b>Value of Consideration to be Paid</b>
\$99.0 \$121.0 million	\$140.0 million

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*Selected Acquisitions Analysis*

BNY reviewed the transaction value multiples in the following four selected transactions in the home healthcare industry:

<b>Acquiror</b>	<b>Target</b>
Gentiva Health Services	The Healthfield Group
Amedisys, Inc.	Housecall Medical Resources
National Senior Care	Mariner Health Care
Critical Care Systems International	Critical Care Systems

BNY compared, among other things, enterprise values in the selected transactions as multiples of the latest 12 months EBITDA. BNY then applied a range of selected multiples derived from the selected transactions to corresponding financial data of InfuSystem. Multiples for the selected transactions were based on publicly available financial information at the time of announcement of the relevant transaction. Financial data for InfuSystem was based on internal estimates developed by HAPC. This analysis indicated the following implied total enterprise value range for InfuSystem, as compared to the total enterprise value of the consideration to be paid in accordance with the acquisition:

<b>Implied Total Enterprise</b>	<b>Total Enterprise</b>
<b>Value Range</b>	<b>Value of Consideration to be paid</b>
\$158.0 \$187.0 million	\$140.0 million

*Miscellaneous*

BNY is a nationally recognized investment banking firm and has been retained by the Board of Directors of HAPC to determine if the consideration to be paid by HAPC in the acquisition is fair, from a financial point of view, to HAPC. Under the terms of its engagement letter, BNY provided HAPC a financial opinion in connection with the acquisition, and HAPC agreed to pay BNY a fee for its services, which was not contingent on either BNY rendering a favorable opinion on or successful completion of the acquisition. In addition, HAPC has agreed to indemnify BNY for certain liabilities that may arise out of the rendering of the Opinion. BNY is a wholly owned subsidiary of The Bank of New York Company, Inc. In the ordinary course of business, members of The Bank of New York group of companies may from time to time trade in the securities of InfuSystem or its affiliates for their own account, accounts under their management and for the accounts of their customers and, accordingly, may at any time hold a long or short position in such securities.

The acquisition consideration was determined through arms -length negotiations between InfuSystem, I-Flow and HAPC and was approved by the HAPC Board of Directors and the I-Flow Board of Directors. BNY did not recommend any specific amount of consideration to the HAPC Board of Directors or that any specific amount of consideration constituted the only appropriate consideration for the acquisition.

BNY, as part of its customary investment banking practice, is continually engaged in the valuation of businesses and their securities in connection with acquisitions and acquisitions, competitive biddings, corporate and other purposes. BNY acted as financial advisor to HAPC in connection with the acquisition for the purpose of providing the fairness opinion and received a fee of \$250,000 plus reimbursement of approximately \$25,000 in expenses incurred in connection with the engagement. BNY did not provide any other financial advisor services. The fee received by BNY was not contingent on the consummation of the acquisition or the conclusions expressed in the opinion. HAPC also agreed to indemnify BNY against certain liabilities incurred in connection with its services.

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**PROPOSAL 2**

**THE STOCK INCENTIVE PLAN PROPOSAL**

**Background**

HAPC is seeking your approval of the adoption of the HAPC 2006 Stock Incentive Plan (the "Plan") providing for the issuance of a maximum of 2,000,000 shares of common stock in connection with the grant of options and/or other stock-based or stock-denominated awards. The closing bid price of a share of HAPC common stock on November 30, was \$5.60.

The HAPC Board of Directors believes that attracting, retaining and rewarding directors, officers, other employees and persons who provide services to HAPC and its subsidiaries and enabling such persons to acquire or increase a proprietary interest in HAPC has been and will continue to be essential to HAPC's growth and success. The Plan will enable HAPC to implement a compensation program with different types of incentives for motivating such individuals and encouraging them to give HAPC long-term, excellent service.

On November 8, 2006, the HAPC Board of Directors unanimously approved the Plan and recommended that the Plan be submitted to the stockholders for approval at the special meeting. If approved by the stockholders at the special meeting, the Plan will become effective as of the closing of the acquisition. A copy of the Plan is attached as Annex B.

**Reasons for Shareholder Approval**

The HAPC Board of Directors seeks shareholder approval of the Plan as a matter of good corporate governance practices.

The HAPC Board of Directors also seeks to preserve HAPC's ability to claim tax deductions for compensation paid, to the greatest extent practicable. Section 162(m) of the Internal Revenue Code limits the deductions a publicly held company can claim for compensation in excess of \$1 million in a given year paid to the chief executive officer and the four other most highly compensated executive officers serving on the last day of the fiscal year (generally referred to as the "named executive officers"). Performance-based compensation that meets certain requirements is not counted against the \$1 million deductibility cap, and therefore remains fully deductible. HAPC is seeking stockholder approval of the Plan in order to meet a key requirement for certain awards to qualify as "performance-based" under Code Section 162(m).

In addition, stockholder approval will permit designated stock options to qualify as incentive stock options under the Internal Revenue Code. Such qualification can give the holder of the options more favorable tax treatment, as explained below.

The approval of the Plan will not affect HAPC's ability to make stock-based or cash-based awards outside of the Plan to the extent consistent with applicable law and stock exchange rules.

**Potential Dilution**

The aggregate number of shares of common stock ("Shares") that may be issued under the Plan will not exceed 2,000,000, subject to adjustment as discussed below.

**Repricing**

As to any award granted as an option to purchase Shares or an appreciation right payable in Shares, the HAPC Board of Directors is authorized to subsequently reduce the applicable exercise price relating to such award, or take such other action as may be considered a repricing of such award under generally accepted accounting principles.

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### **Accounting Treatment of Awards under the Plan**

HAPC has adopted Statement of Financial Accounting Standards No. 123 Revised (FAS 123R) as its method of accounting for stock-based compensation plans. FAS 123R provides a method by which the fair value of awards granted under the Plan, including stock options, can be calculated and reflected in HAPC's financial statements. Although accounting standards may change over time, the HAPC Board of Directors expects that any standard HAPC may use in the foreseeable future will provide a reasonable method for valuing awards and reflecting such value as an expense in HAPC's financial statements.

### **Description of the Plan**

The following is a brief description of the material features of the Plan. This description is qualified in its entirety by reference to the full text of the Plan, a copy of which is attached to this proxy statement as Annex B.

#### *Administration*

The HAPC Board of Directors will have the authority to select award recipients, determine the type, size and other terms and condition of the award, and make all other decisions and determinations as may be required under the terms of the Plan or as the HAPC Board may deem necessary or advisable for the administration of the Plan. The HAPC Board of Directors will have the authority to delegate any or all of its authority to the extent such delegation is consistent with applicable law.

#### *Eligibility*

Officers, employees, directors (including outside directors), and other persons who provide services to HAPC and its subsidiaries are eligible to be selected as award recipients.

#### *Type of Awards*

The HAPC Board of Directors is authorized to grant awards payable in either Shares or cash, including options to purchase Shares, restricted Shares, stock appreciation rights, Share units, performance units and dividend equivalents. These awards may be granted as a bonus, or in lieu of obligations of HAPC or any subsidiary to pay cash or grant other awards under other plans or compensatory arrangements.

#### *Terms and Conditions of Awards*

The HAPC Board of Directors will determine the size of each award to be granted (including, where applicable, the number of Shares to which an award will relate), and all other terms and conditions of each award (including any exercise price, grant price, or purchase price, any restrictions or conditions relating to transferability, forfeiture, exercisability, or settlement of an award, and any schedule or performance conditions for the lapse of such restrictions or conditions, and accelerations or modifications of such restrictions or conditions).

#### *Aggregate Limitation on Stock-Based Awards*

The aggregate number of Shares that may be issued under the Plan during the life of the Plan will not exceed 2,000,000, subject to adjustment as discussed below. Shares issued that are reacquired by HAPC in connection with a forfeiture or other failure to satisfy performance conditions will not be treated as having been issued for purposes of this limit. Shares delivered under the Plan may be newly issued Shares, treasury Shares or Shares acquired on the market.

#### *Per Participant Limitations*

In any calendar year, no individual may be granted stock-based awards that relate to more than 500,000 Shares, or cash-based awards that can be settled for more than \$500,000.



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*Certain Performance-Based Awards*

The HAPC Board of Directors may grant performance awards, which may be cash-denominated awards or stock-based awards. Generally, performance awards require satisfaction of pre-established performance goals, consisting of one or more business criteria and a targeted performance level with respect to such criteria as a condition of awards being granted, becoming exercisable or settleable, or as a condition to accelerating the timing of such events. Performance may be measured over a period of any length specified by the Board, up to 10 years. If so determined by the Board, in order to avoid the limitations on tax deductibility under Section 162(m) of the Code, the business criteria used by the Board in establishing performance goals applicable to performance awards to the named executive officers will be based on one or more of the following individual, corporate-wide or subsidiary, division or operating unit financial measures: (1) pre-tax or after-tax income; (2) pre-tax or after-tax operating income; (3) gross revenue; (4) profit margin; (5) stock price (including market capitalization); (6) cash flow(s); (7) market share; (8) pre-tax or after-tax earnings per share; (9) pre-tax or after-tax operating earnings per share; (10) expenses; (11) return on equity; and (12) strategic business criteria, consisting of one or more objectives based on meeting specified revenue, market penetration, geographic business expansion goals, cost targets, goals relating to acquisitions or divestitures, clinical goals, distribution and development goals, sales force goals and strategic alliance goals. Each such goal may be expressed on an absolute and/or relative basis, may be based on or otherwise employ comparisons based on current internal targets and/or the past performance of HAPC (including the performance of one or more subsidiaries, divisions and/or operating units), and in the case of earnings-based measures, may use or employ comparisons relating to capital (including, but not limited to, the cost of capital), shareholders' equity and/or shares outstanding, or to assets or net assets.

*Adjustments*

In the event of any change in the outstanding Shares by reason of any Share dividend or split, reorganization, recapitalization, merger, amalgamation, consolidation, spin-off, combination or exchange of Shares, repurchase, liquidation, dissolution or other corporate exchange, any large, special and non-recurring dividend or distribution to stockholders, or other similar corporate transaction, the HAPC Board shall make such substitution or adjustment as is equitable and appropriate in order to preserve, without enlarging, the rights of participants, as to (i) the number and kind of Shares which may be delivered pursuant to awards, (ii) the number and kind of Shares subject to or deliverable in respect of outstanding awards, and (iii) the exercise price, grant price or purchase price relating to any award. In addition, the HAPC Board shall make such equitable and appropriate adjustments in the terms and conditions of, and the criteria included in, awards (including cancellation of awards in exchange for the intrinsic (i.e., in-the-money) value, if any, of the vested portion thereof, substitution of awards using securities or other obligations of a successor or other entity, acceleration of the expiration date for awards, or adjustment to performance goals in respect of awards) in recognition of unusual or nonrecurring events (including events described in the preceding sentence, as well as acquisitions and dispositions of businesses and assets) affecting HAPC, any subsidiary or any business unit, or the financial statements of HAPC or any subsidiary, or in response to changes in applicable laws, regulations, or accounting principles. Notwithstanding the foregoing, if any such event will result in the acquisition of all or substantially all of HAPC's outstanding Shares, then if the document governing such acquisition (e.g., merger agreement) specifies the treatment of outstanding awards, such treatment shall govern without the need for any action by the Board.

*Amendment, Termination*

The HAPC Board of Directors may amend, suspend, discontinue, or terminate the Plan or the HAPC Board's authority to grant awards under the plan without shareholder approval, except as required by law or regulation. Unless earlier terminated, the Plan will terminate ten years after its approval by shareholders.

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**Federal Income Tax Implications Of The Plan**

The Federal income tax consequences arising with respect to awards granted under the Plan will depend on the type of the award. From the recipients' standpoint, as a general rule, ordinary income will be recognized at the time of payment of cash, or delivery of actual Shares. Future appreciation on Shares held beyond the ordinary income recognition event will be taxable at capital gains rates when the Shares are sold. HAPC, as a general rule, will be entitled to a tax deduction that corresponds in time and amount to the ordinary income recognized by the recipient, and HAPC will not be entitled to any tax deduction in respect of capital gain income recognized by the recipient. Exceptions to these general rules may arise under the following circumstances: (i) if Shares, when delivered, are subject to a substantial risk of forfeiture by reason of failure to satisfy an employment or performance-related condition, ordinary income taxation and HAPC's tax deduction will be delayed until the risk of forfeiture lapses (unless the recipient makes a special election to ignore the risk of forfeiture); (ii) if an employee is granted an option that qualifies as an incentive stock option, no ordinary income will be recognized, and HAPC will not be entitled to any tax deduction, if Shares acquired upon exercise of such option are held more than the longer of one year from the date of exercise and two years from the date of grant; (iii) HAPC will not be entitled to a tax deduction for compensation attributable to awards granted to one of its named executive officers, if and to the extent such compensation does not qualify as performance-based compensation under Code Section 162(m), and such compensation, along with any other non-performance-based compensation paid in the same calendar year, exceeds \$1 million, and (iv) an award may be taxable at 20 percentage points above ordinary income tax rates at the time it becomes vested, even if that is prior to the delivery of the cash or Stock in settlement of the award, if the award constitutes deferred compensation under Code Section 409A, and the requirements of Code Section 409A are not satisfied. The foregoing provides only a general description of the application of federal income tax laws to certain awards under the Plan. This discussion is intended for the information of shareholders considering how to vote at the special meeting and not as tax guidance to participants in the Plan, as the consequences may vary with the types of awards made, the identity of the recipients and the method of payment or settlement. The summary does not address the effects of other federal taxes (including possible golden parachute excise taxes) or taxes imposed under state, local, or foreign tax laws.

**New Plan Benefits Under the Plan**

See Directors and Management of HAPC, INC. Following the Acquisition of InfuSystem, Inc. Employment Agreements for a description of certain stock and stock option grants to be made to Steven Watkins under the terms of an employment agreement to be entered into at the closing.

Awards under the Plan generally will be granted in the discretion of the HAPC Board. Therefore, the type, number, recipients, and other terms of other awards cannot be determined at this time.

**Required Vote**

To be approved by the stockholders, the proposal to approve the adoption of the HAPC 2006 Stock Incentive Plan must receive the affirmative vote of a majority of the shares of HAPC common stock issued and outstanding as of the Record Date that are present in person or by proxy at the special meeting. Abstentions are treated as shares present or represented and entitled to vote at the special meeting and will have the same effect as a vote against this proposal. Broker non-votes are not deemed to be present and represented and are not entitled to vote, and, therefore, will have no effect on the outcome of this proposal. A failure to vote by not returning a signed proxy will have no impact on the proposal.

**Recommendation**

The HAPC Board of Directors believes that it is in the best interests of, and fair to, HAPC and its stockholders that the stockholders approve the HAPC 2006 Stock Incentive Plan.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR THE ADOPTION OF THE HAPC 2006 STOCK INCENTIVE PLAN.**

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**PROPOSAL 3**

**AMENDMENT TO AMENDED AND RESTATED CERTIFICATE OF INCORPORATION PROPOSAL**

**Background**

HAPC is seeking your approval to authorize the HAPC Board of Directors, to amend HAPC's amended and restated certificate of incorporation to change its name from HAPC, INC. to InfuSystem Holdings, Inc.

The name change is being undertaken as a result of, and in conjunction with, the acquisition of InfuSystem, Inc.

This proposal to amend HAPC's amended and restated certificate of incorporation is conditioned upon and subject to the approval of the acquisition proposal.

**Proposal**

Under the proposed amendment, Article First of HAPC's amended and restated certificate of incorporation would be amended as follows:

FIRST: The name of the corporation is InfuSystem Holdings, Inc. (hereinafter sometimes referred to as the Corporation ).

**Required Vote**

To be approved by the stockholders, the proposal to amend the amended and restated certificate of incorporation must receive the affirmative vote of a majority of the shares of HAPC common stock issued and outstanding as of the Record Date. Abstentions are treated as shares present or represented and entitled to vote at the special meeting and will have the same effect as a vote against this proposal. Broker non-votes are not deemed to be present and represented and are not entitled to vote, and, therefore, will have no effect on the outcome of this proposal. A failure to vote by not returning a signed proxy will have no impact on the proposal.

**Recommendation**

The HAPC Board of Directors believes that it is in the best interests of HAPC that the stockholders approve the proposal to authorize the HAPC Board of Directors, in its discretion, to amend HAPC's amended and restated certificate of incorporation.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS OF HAPC VOTE FOR THIS PROPOSAL 3 TO AUTHORIZE THE BOARD OF DIRECTORS, IN ITS DISCRETION, TO AMEND HAPC'S AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO CHANGE OUR NAME TO INFUSYSTEM HOLDINGS, INC.**

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**INFORMATION ABOUT INFUSYSTEM**

**Business of InfuSystem**

InfuSystem is one of the largest providers of ambulatory infusion pump management services for oncologists and their patients in the United States. InfuSystem was incorporated under the laws of the State of California in December 1997 under the name I-Flow Subsidiary, Inc., as a wholly owned subsidiary of I-Flow Corporation or I-Flow, a Delaware corporation. In February 1998, I-Flow Subsidiary acquired Venture Medical, Inc. and InfuSystem II, Inc. in a merger transaction, pursuant to which I-Flow Subsidiary, as the surviving corporation, changed its name to InfuSystem, Inc.

The principal executive office of InfuSystem is located at 1551 East Lincoln Avenue, Suite 200, Madison Heights, Michigan 48071.

InfuSystem supplies electronic ambulatory infusion pumps and assorted disposable supply kits and provides billing and collection services for these items to approximately 1,550 physician practices in United States. The pumps are currently used primarily for the continuous infusion of chemotherapy drugs for patients with colorectal cancer.

*Continuous Infusion Therapy*

Continuous infusion therapy involves the gradual administration of a drug via a small, lightweight, portable pump over two to seven days, followed by rest periods and additional cycles. This is an alternative to traditional bolus chemotherapy, where patients receive higher doses of drugs over the course of minutes to several hours, administered in the physician's office or the hospital. Continuous infusion of chemotherapy through ambulatory pumps is increasingly being utilized by oncologists as a preferred treatment for patients with colorectal cancer. InfuSystem believes the growth of continuous infusion therapy is driven by three factors: superior clinical outcomes, enhanced patient convenience and comfort and recent changes to physician reimbursement.

In 2004, two new protocols were approved by the U.S. Food and Drug Administration ( FDA ) for treatment of colorectal cancer: FOLFOX (by Sanofi-Aventis) and FOLFIRI (by Pfizer Inc.). These treatment regimens, which combine older medications such as 5-Fluorouracil and Leucovorin with newer drugs, have been shown in studies to produce better anti-tumor efficacy, longer patient survival, reduced drug toxicities and improved therapy tolerance. Sanofi-Aventis and Pfizer are each dedicating significant resources to educate physicians and promote the use of these protocols. Oncologists have responded and the adoption of continuous infusion treatments has grown rapidly over the past two years.

Continuous infusion therapy through ambulatory pumps allows patients to undergo infusion therapy in the comfort and convenience of their homes and enables them to continue with many of their daily activities. In bolus chemotherapy, patients are given large doses of drugs over a short period of time which can often lead to nausea, vomiting, diarrhea and decreased white blood cell and platelet counts. Continuous infusion therapy involves the delivery of smaller doses over a longer period of time (two to seven days), leading to improved tolerance and patient comfort. Importantly, this can enhance a patient's ability to remain on the chemotherapy regimen.

The Medicare Modernization Act of 2003 reduced levels of Medicare reimbursement for oncology drugs administered in the physician office setting. To offset this reduction, Medicare increased the service fees paid to oncologists. InfuSystem believes that this has resulted in doctors shifting to treatments that provide superior efficacy and patient satisfaction while optimizing their potential to earn service fees.

*Products and Services*

InfuSystem's core service is to provide oncologist offices with ambulatory infusion pumps and related supplies, and to directly bill and collect payment from payors for the use of these pumps. InfuSystem owns approximately 14,000 pumps.

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After a doctor determines that a patient is eligible for ambulatory infusion pump therapy, the doctor arranges for the patient to receive an infusion pump and provides the necessary chemotherapy drugs. The oncologist and nursing staff train the patient in the use of the pump and initiate service. The physician bills insurers, Medicare or Medicaid (collectively, payors) for the physician's professional services associated with initiating and supervising the infusion pump administration, as well as the supply of drugs. InfuSystem directly bills payors for the use of the pump and related disposable supplies. InfuSystem has contracts with more than 100 payors that cover more than 125 million managed care lives.

In addition to providing high quality and convenient care, InfuSystem believes its pump management program offers significant economic benefits for patients, providers and payors.

InfuSystem benefits patients by providing high quality, reliable pumps and accessories as well as 24-hour service and support. InfuSystem employs oncology and intravenous certified registered nurses trained on ambulatory infusion pump equipment who staff InfuSystem's 24-hour hotline to address questions that patients may have about their treatment, the infusion pumps or other medical or technical questions related to the pumps.

Physicians benefit from InfuSystem's service in several ways. For those physicians providing their own pumps to patients, InfuSystem relieves them of the capital commitment, pump service and maintenance and billing and administrative burden. Rather than referring patients to home care, InfuSystem's service allows the doctor to continue a direct relationship with the patient and to receive professional service fees for setting up treatment and administering drugs.

Payors support InfuSystem because its service is generally less expensive than hospitalization or home care.

### *Relationships with Physician Offices*

Through its 17 person sales force, InfuSystem maintains relationships with clinical oncologists in more than 1,550 practices. Though this represents a substantial portion of the oncologists in the United States, InfuSystem believes it can continue to expand its network to further penetrate the oncology market. Over the past three years, InfuSystem has added approximately 450 new accounts to its services. InfuSystem's relationships with the physician offices are strong, as evidenced by its significant renewal rate.

InfuSystem believes that, in general, it does not compete directly with hospitals and physician offices to treat patients. Rather, by providing products and services to hospitals and physician offices and other care facilities and providers, InfuSystem believes it can help providers keep up with increasing patient demand and manage institutional restraints on capital and manpower due to the nature of limited resources in hospitals and physician offices.

### *Additional Markets*

In addition to treatments for colorectal cancer, there are a number of approved drugs and drugs in the development pipeline that InfuSystem believes could potentially be used for continuous infusion protocols for the treatment of other diseases. Approved drugs include those for cancers such as head and neck, breast, lung, leukemia and stomach. InfuSystem currently generates approximately 15% of its revenue from treatments for these diseases. Drugs currently in clinical trials may also be launched over the next several years. If these new drugs are launched with continuous infusion protocols, InfuSystem expects the pharmaceutical companies to focus their sales and marketing forces on promoting the new drugs and protocols to physicians.

### *Billing Collection Services*

As part of its relationship with I-Flow, InfuSystem provides billing and collection services for I-Flow's On-Q pain management product. InfuSystem has agreed to continue to provide this service to I-Flow for at 18

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months after the closing of the acquisition, subject to certain cancellation provisions. InfuSystem currently maintains a staff of 17 people to provide these services. I-Flow will compensate InfuSystem for its costs and provides InfuSystem with an incentive based reimbursement arrangement.

### **Employees**

As of November 30, 2006, InfuSystem had 113 employees, including 105 full-time employees, 7 part-time employees and 1 temporary employee. None of InfuSystem's employees are unionized.

### **Properties**

InfuSystem leases office and warehouse space at 1551 E. Lincoln Avenue, Madison Heights, Michigan.

### **Legal Proceedings**

#### *State of Michigan Department of Treasury*

In August 2005, the State of Michigan Department of Treasury issued a decision and order of determination which provided that InfuSystem is liable for use taxes on its purchases of infusion pumps. As a result, InfuSystem has recorded through September 30, 2006 a cumulative net increase to gross fixed assets of \$1,168,000, a tax liability of \$1,281,000, a liability for accrued interest expense of \$210,000 and total cumulative expense of \$861,000. InfuSystem believes that portable infusion pumps, which allow cancer patients to be ambulatory and to lead a reasonably normal life, qualify for an exemption from use tax under Michigan law. InfuSystem is currently appealing the decision. In the event that InfuSystem's appeal of the decision is not successful, InfuSystem may be required to make a payment in excess of \$1,491,000 to the State of Michigan Department of Treasury, which will result in a decrease in InfuSystem's available working capital.

#### *Estate of Bilbie*

InfuSystem was made aware of a wrongful death allegation made against a hospital by the estate of a decedent, involving an error by a nurse who programmed a pump incorrectly. Counsel for the hospital invited InfuSystem to contribute to any settlement. InfuSystem notified its insurer and declined the invitation to participate in the settlement. InfuSystem has since been informed that the hospital reached a settlement with the estate, and the hospital again sought contribution from InfuSystem, which has again been declined. There has been no communication with the hospital or any involved party since August 2004. Given that this matter has not ripened into litigation, and may not do so, it is not possible to project the outcome. Once the relevant statute of limitations expires, this matter will no longer be a potential threat.

### **Sources and Availability of Raw Materials**

InfuSystem supplies a wide variety of pumps and assorted equipment, as well as disposables and ancillary supplies. The majority of InfuSystem pumps are electronic ambulatory pumps purchased from the following manufacturers: Smiths Medical, Inc.; Hospira Worldwide, Inc.; and McKinley Medical, LLC. InfuSystem believes that it is one of the largest domestic purchasers of ambulatory infusion pumps and is therefore able to negotiate favorable pricing from suppliers. As of December 31, 2005, InfuSystem owned approximately 14,000 active pumps.

### **Seasonality**

InfuSystem does not believe that there is significant seasonality of its business.

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### **Significant Customers**

InfuSystem has sought to establish contracts with as many managed care organizations as commercially practicable, in an effort to ensure that reimbursement is not a significant obstacle for providers who recommend continuous infusion therapy. InfuSystem currently has contracts with more than 100 managed care plans that cover approximately 125 million lives. InfuSystem's largest contracted payor is Medicare, which accounted for approximately 35% of InfuSystem's revenue in 2005. Although InfuSystem contracts with various individual branches of Blue Cross Blue Shield, these branches in the aggregate account for approximately 22% of InfuSystem's revenue. No individual payor (other than Medicare and the Blue Cross Blue Shield entities) accounts for greater than approximately 7% of InfuSystem's revenue.

### **Competitors**

InfuSystem believes it is one of the largest national providers of ambulatory infusion pump services for the oncology specialty. InfuSystem believes the rest of the market is composed of regional providers, hospital-owned durable medical equipment ( DME ) providers, physician providers and home care infusion providers. An estimate of the number of competitors is not known or reasonably available, due to the wide variety in type and size of the market participants described below.

**Regional Providers:** Regional DME providers act as distributors for a variety of medical products. InfuSystem believes regional DME provider sales forces generally consist of a relatively small number of salespeople, usually covering one or two states in total. Regional DME providers tend to carry a limited selection of infusion pumps and their salespeople generally have limited resources. Regional DME providers usually do not have after-hours customer service or 24-hour nursing service. InfuSystem believes that regional DME providers have relatively few managed care contracts, which may prevent these providers from being paid at acceptable levels and may also result in higher out-of-pocket costs for patients.

**Hospital Owned DME Providers:** Many hospitals have in-house DME providers to supply basic equipment. In general, however, these providers have limited capital and tend to stock a small inventory of infusion pumps. As a result, InfuSystem believes that hospital-owned providers have limited ability to grow because of restricted patient populations. Growth from outside of the hospital may pose a challenge because hospitals typically will not provide referrals to competitors, instead preferring to offer patients a choice of non-hospital-affiliated DME providers.

**Physician Providers:** A limited number of physicians maintain an inventory of their own infusion pumps and collect both the professional and technical fees. However, InfuSystem believes that pump utilization in this arena tends to be low and the costs associated with ongoing supplies, preventative maintenance and repairs can be relatively high. Moreover, InfuSystem believes that a high percentage of DME claims are rejected by payors upon first submission, requiring a provider's staff to spend significant time and effort to resubmit claims and receive payment for treatment. The numerous service and technical questions from patients may present another significant cost to a physician provider's staff.

**Home Care Infusion Providers:** Home care infusion providers provide chemotherapy drugs and services to allow for in-home patient treatment. Although the doctor is still responsible for overseeing the treatment and assuming the liability for the patient's treatment and outcome, InfuSystem believes that the physician is often not reimbursed for this ongoing responsibility. Moreover, InfuSystem believes that home care infusion treatment can be very costly and that many patients do not carry this type of insurance coverage, resulting in larger out-of-pocket costs. Because home care treatments may take as long as six months, these costs can be high and can result in higher patient co-payments. InfuSystem believes that home care providers may also be reluctant to offer 24-hour coverage or additional patient visits, due to capped fees.

**Table of Contents****Selected Historical Financial Information**

The following tables set forth selected historical financial data of InfuSystem for each of the three years ended December 31, 2005 through 2003, and selected historical financial data for each of the years ended December 31, 2002 and 2001 and for each of the nine-month periods ended September 30, 2006 and 2005. The historical data was derived from InfuSystem's historical financial statements. This information is only a summary and must be read in conjunction with the financial statements attached hereto and the related notes to such financial statements. The operating results, including those for the nine-month period ended September 30, 2006, are not necessarily indicative of future performance.

**Statement of Operations:**

	Year Ended December 31,				
	2005	2004	2003	2002	2001
	(in thousands)				
Net rental income(1)	\$ 28,525	\$ 19,349	\$ 13,022	\$ 10,292	\$ 10,363
Cost of revenues(2)	7,735	5,555	3,993	3,051	3,229
Gross profit(3)	20,790	13,794	9,029	7,241	7,134
Operating expenses					
Selling and marketing	4,315	3,195	2,962	2,129	1,900
General and administrative	8,394	5,947	4,168	2,901	3,216
Total operating expenses(4)	12,709	9,142	7,130	5,030	5,116
Operating income	8,081	4,652	1,899	2,211	2,018
Interest expense(5)	50	29	32	18	36
Income before income taxes	8,031	4,623	1,867	2,193	1,982
Income tax provision(5)	2,938	1,699	720	818	852
Net income	\$ 5,093	\$ 2,924	\$ 1,147	\$ 1,375	\$ 1,130

	(in thousands)	
	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Net rental income(1)	\$ 23,508	\$ 21,444
Cost of revenues(2)	6,287	5,720
Gross profit(3)	17,221	15,724
Operating expenses		
Selling and marketing	2,736	3,212
General and administrative	8,223	5,882
Total operating expenses(4)	10,959	9,094
Operating income	6,262	6,630



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Interest expense(5)	86	31
Income before income taxes	6,176	6,599
Income tax provision(5)	2,249	2,367
Net income	\$ 3,927	\$ 4,232

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- (1) During 2001 through 2003, revenue growth was driven primarily by additional client facilities and additional managed care contracts. Beginning in the fourth quarter of 2003 and continuing through 2005, the

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- clinical use of new drugs and combination drug therapies involving continuous infusion increased significantly, driven by clinical studies demonstrating improved survival with new drugs and protocols (FOLFOX and FOLFIRI). These protocols normally include continuous infusion of the drug 5-Fluorouracil using ambulatory electronic infusion pumps of the type provided by InfuSystem. InfuSystem estimates that it incurred a \$1.9 million loss in revenue due to a shortage of 5-Fluorouracil in the fourth quarter of 2005. InfuSystem estimates the corresponding cost reduction in sales and sales commission expenses that would have been incurred without the 5-Fluorouracil shortage to be \$0.3 million each. The 5-Fluorouracil shortage continued into the first quarter of 2006, but availability of 5-Fluorouracil returned to normal at the end of the first quarter of 2006. Revenue is believed to have been adversely affected during the second and third quarters of 2006, however, due to a decline in the number of patients in the pipeline who had to turn to other medications.
- (2) Cost of revenues has two major components: the cost of operating supplies (primarily disposable tubing kits provided to customers with the pumps) and depreciation of rental equipment (pumps). The increase in gross profit relative to revenues reflects improved utilization of pumps and supplies. On August 24, 2005, the Michigan Department of Treasury assessed InfuSystem for unpaid use taxes. InfuSystem disputes the assessment and has appealed the determination. Through September 30, 2006, InfuSystem has recognized \$0.7 million as cost of sales (incremental depreciation expense) as a result of the Michigan tax dispute.
  - (3) Gross profit as a percentage of revenues increased from 69% in 2001 to 73% in 2005 and for the nine months ended September 30, 2006.
  - (4) Operating expenses decreased from 49% of revenues in 2001 to 45% of revenues in 2005 and increased to 47% of revenues for the nine months ended September 30, 2006. The decrease in operating expenses from 2001 to 2005 relative to revenue resulted from greater sales force efficiency (more revenues per sales representative) and billing efficiency (more billing dollars in proportion to the cost of administrative staff). Administrative staff primarily consists of InfuSystem's in-house customer service representatives, billers and collectors. Operating expenses do not include overhead costs associated with administrative services and corporate oversight that have historically been provided by I-Flow Corporation, InfuSystem's parent, at no charge to InfuSystem, including with respect to the following: insurance, benefits, employee stock option administration, human resources, finance, information technology, investor relations, corporate governance, SEC compliance, general management, strategy development, taxes, audits, cash management, legal work, regulatory compliance and budgeting. Upon acquisition of InfuSystem by HAPC, Inc., these services will no longer be provided by I-Flow Corporation, and operating expenses of InfuSystem may increase accordingly.
  - (5) InfuSystem recorded through September 30, 2006 a total of \$0.2 million as interest expense related to unpaid use taxes. The audited and unaudited financial statements for the years 2001 through 2005 included this incremental expense that would have been reported if the use tax had been paid, capitalized, and subsequently depreciated on an ongoing basis. There is an accrued interest expense of \$0.2 million recognized but unpaid (pending appeal) related to this matter. Income taxes as presented in the table have been prepared on a separate tax return basis.

**Table of Contents****Balance Sheet Data:**

	2005	2004	As of December 31, 2003		2002	2001
			(in thousands)			
Accounts receivable, less allowance for doubtful accounts	\$ 9,160	\$ 4,920	\$ 4,022	\$ 4,521	\$ 4,930	
Total current assets	12,715	6,427	4,952	6,230	6,507	
Total current liabilities	3,906	3,385	1,927	1,396	1,599	
Total assets	27,831	17,665	11,647	11,546	11,785	

	As of September 30, 2006		As of September 30, 2005	
	(in thousands)		(in thousands)	
Accounts receivable, less allowance for doubtful accounts	\$ 10,244	\$ 9,525		
Total current assets	12,874	11,743		
Total current liabilities	3,343	4,172		
Total assets	26,450	26,731		

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### **Management's Discussion and Analysis**

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

Statements about InfuSystem in this proxy statement are and will be forward-looking in nature and express HAPC's current opinions about trends and factors that may impact future operating results. Statements that use words such as may, will, should, believes, predicts, projects, and expects or use similar expressions are intended to identify forward-looking statements. Forward-looking statements are subject to material risks, assumptions and uncertainties, which could cause actual results to differ materially from those currently expected, and readers are cautioned not to place undue reliance on these forward-looking statements. HAPC undertakes no obligation to provide revised forward-looking statements to reflect the occurrence of unanticipated or subsequent events. Readers are also urged to carefully review and consider the various disclosures made about InfuSystem in this proxy statement that seek to advise interested parties of the risks and other factors that affect InfuSystem's business. The risks affecting InfuSystem's business include, among others, the following: successful consummation of the previously announced acquisition of InfuSystem by HAPC, physician acceptance of infusion-based therapeutic regimens; implementation of InfuSystem's sales strategy; dependence on InfuSystem's suppliers and distributors and the market availability to physicians of drugs used in chemotherapy; InfuSystem's continuing compliance with applicable laws and regulations, such as the Medicare Supplier Standards, and the concurrence of regulatory agencies with management's subjective judgment on compliance issues; the reimbursement system currently in place and future changes to that system; product availability and acceptance; competition in the industry; technological changes; intellectual property claims; InfuSystem's growth strategy, involving entry into new fields of infusion-based therapy; and inadequacy of booked reserves. All forward-looking statements, whether made in this proxy statement or elsewhere, should be considered in context with the various disclosures made by HAPC about InfuSystem's business.

#### **Discussion and Analysis**

If more doctors convert from bolus chemotherapy and oral medication regimens to continuous infusion therapy, InfuSystem believes it is positioned to capture additional market share. InfuSystem's growth strategy reflects InfuSystem's beliefs as to the market potential of ambulatory infusion therapy.

Over the last five years, InfuSystem's net revenue increased from \$10.4 million in 2001 to \$28.5 million in 2005. Net revenue for the nine months ended September 30, 2006 was \$23.5 million, compared to \$21.4 million for the same period in the prior year. InfuSystem believes that revenue growth has primarily resulted from the following factors:

Increased prevalence of cancer treatment protocols involving the use of ambulatory pumps (continuous therapy versus bolus administration of chemotherapy drugs).

Changes in the reimbursement landscape, creating increased economic incentives for providers to provide continuous administration therapy.

Additional facilities utilizing InfuSystem's products and services, and the expansion of those organizations (i.e., larger physician groups). The increased customer base is largely due to an increased number of InfuSystem outside sales representatives, and their relative success in communicating the clinical, economic and administrative benefits of the InfuSystem pump management program to physician groups.

Increased number of managed care contracts, which favorably influences the average yield (percentage of gross billings collected) because a higher percentage of the patients treated by an oncologist will result in a payment to InfuSystem.

InfuSystem believes that its revenues fluctuate based on a number of factors, including the number of client facilities utilizing the InfuSystem pump management system, the number of contracts with managed care organizations, the number of potential patients covered by those contracts, reimbursement levels, and periodic fluctuations in the prevalence of continuous infusional administration of chemotherapy as opposed to oral administration or rapid infusion of drug therapies.



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InfuSystem's operations require the management of two significant assets: accounts receivable (primarily insurance billings) and fixed assets (primarily rental pumps purchased from ambulatory pump manufacturers).

Net accounts receivable increased from \$4.9 million as of December 31, 2001 to \$9.2 million as of December 31, 2005, an increase of 88%. In that same period, relevant revenues increased by 174%. Net accounts receivable grew less rapidly than revenues from 2001 to 2005 due to improved collection performance. As of September 30, 2006, net accounts receivable were \$10.2 million, compared to \$9.2 million as of December 31, 2005.

Net fixed assets increased from \$2.6 million as of December 31, 2001 to \$12.5 million as of December 31, 2005, and decreased to \$11.4 million as of September 30, 2006. InfuSystem purchases electronic infusion pumps directly from several manufacturers. InfuSystem believes that it is typically the manufacturer's largest customer and therefore acquires infusion pumps at a meaningful discount. Acquired pumps are depreciated on a straight-line basis over five years. Generally, in periods of rapidly increasing revenue, significant capital expenditures are required, depreciation expense increases, and the average age of the pump fleet decreases. If the rate of revenue growth were to decrease, a decrease in capital expenditures would be expected.

Purchases of pump rental equipment have increased steadily from \$0.5 million in 2001 to \$7.1 million in 2005 to support the rapid increase in revenue. Purchases of pump rental equipment for the nine months ended September 30, 2006 were \$1.7 million compared to \$5.9 million for the same period in the prior year. Depreciation expense increased from \$1.0 million in 2001 to \$3.3 million in 2005. Depreciation expense for the nine months ended September 30, 2006 was \$2.7 million, compared to \$2.4 million for the same period in the prior year.

**Interim Results of Operations as of September 30, 2006**

*Revenues*

Revenues for the nine month period ended September 30, 2006 were \$23.5 million, compared to \$21.4 million for the same period in the prior year, an increase of 10% for the nine months ended September 30, 2006, compared to the same period in the prior year.

The increase in revenues for the nine months ended September 30, 2006 compared to the same period in the prior year was primarily due to an increased usage of new drugs and clinical protocols that require the use of ambulatory electronic pumps instead of oral application or rapid (bolus) injection of chemotherapy drugs. Net revenues for the nine months ended September 30, 2006 increased despite the unfavorable impact of shortages of 5-Fluorouracil, a commonly used chemotherapy drug, that began in the fourth quarter of 2005 and continued into the first quarter of 2006. Availability of 5-Fluorouracil returned to normal at the end of the first quarter of 2006. However, revenue is believed to have been adversely affected during the second and third quarters of 2006 due to a decline in the number of patients in the pipeline who InfuSystem believes had to turn to other medications or treatments.

*Cost of Revenues*

Cost of revenues for the nine month period ended September 30, 2006 was \$6.3 million, compared to \$5.7 million for the same period in the prior year, an increase of 10% for the nine months ended September 30, 2006 compared to the same period in the prior year.

Cost of revenues increased as a percentage of revenues by three percentage points for the three months ended September 30, 2006 compared to the three months ended September 30, 2005 primarily due to the additional billing revenue in the prior year period due to the resolution of the billings backlog. Cost of revenues as a percentage of revenues for the nine months ended September 30, 2006 was equal to that of the same period in the prior year.

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*Selling and Marketing Expenses*

Selling and marketing expenses for the three and nine month periods ended September 30, 2006 were \$0.8 million and \$2.7 million, respectively, compared to \$1.1 million and \$3.2 million for the same periods in the prior year, decreases of 27% and 15%, respectively.

The expense decreases were primarily attributable to a decrease in commissions and non-cash compensation expense related to the recognition of deferred compensation expense, which was due to the unfavorable impact of the 5-Fluorouracil shortage during the first quarter of 2006 resulting in less compensation expense recorded for the achievement of sales goals. Commission expenses decreased \$0.3 million and \$0.5 million for the three and nine months ended September 30, 2006, respectively, compared to the same periods in the prior year. InfuSystem recognized stock-based compensation costs related to selling and marketing expenses of approximately \$35,000 and \$71,000 for the three and nine month periods ended September 30, 2006, respectively, and approximately \$71,000 and \$194,000 for the three and nine month periods ended September 30, 2005, respectively. The adoption of SFAS 123R in fiscal 2006 did not have a significant impact on stock-based compensation expense for selling and marketing expenses because InfuSystem was required to recognize such expenses under the prior accounting guidance for the stock awards issued to the sales force which were generally granted with an exercise price below fair market value.

As a percentage of net revenues, selling and marketing expenses decreased by approximately three percentage points for the three and nine months ended September 30, 2006, compared to the same periods in the prior year, primarily because of the decrease in selling and marketing expenses described above.

*General and Administrative Expenses*

General and administrative expenses for the three and nine month periods ended September 30, 2006 were \$3.2 million and \$8.2 million, respectively, compared to \$2.3 million and \$5.9 million for the same periods in the prior year, increases of 35% and 40%, respectively.

The increases were primarily attributable to increases in bad debt expense and salaries, wages and fringe benefit expenses. The increases in bad debt expense (increases of \$0.9 million and \$1.9 million for the three and nine month periods ended September 30, 2006, respectively, compared to the same periods in the prior year) resulted primarily from a delay in collections from a specific large third party insurer. The delays resulted from procedural and processing changes within the insurer's affiliated group of companies. Increases in salaries, wages and fringe benefit expenses (increases of \$0.1 million and \$0.5 million for the three and nine months ended September 30, 2006, respectively, compared to the same periods in the prior year) were primarily due to increased staffing to support the growth of InfuSystem. InfuSystem recognized stock-based compensation costs related to general and administrative expenses of approximately \$40,000 and \$102,000 during the three and nine months ended September 30, 2006, respectively, compared to \$33,000 and \$97,000 for the same periods in the prior year.

InfuSystem estimates that unreimbursed processing costs borne by InfuSystem for I-Flow's ON-Q billings and reflected in its financial statements were approximately \$0.4 million and \$1.1 million for the three and nine months ended September 30, 2006, respectively, compared to \$0.5 million and \$1.0 million for the same periods in the prior year.

In connection with the pending sale of InfuSystem to HAPC, I-Flow incurred certain expenses related to the divestiture of InfuSystem, including legal and professional fees that resulted directly from the sale transaction. Divestiture expenses for the three and nine months ended September 30, 2006 were \$1.7 million and \$1.8 million, respectively, which was not reimbursed from InfuSystem to I-Flow and not reflected in InfuSystem's financial statements.

General and administrative expenses for the three and nine months ended September 30, 2006 do not include overhead costs associated with administrative services and corporate oversight that have historically been

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provided by I-Flow Corporation, InfuSystem's parent, at no charge to InfuSystem, including with respect to the following: insurance, benefits, employee stock option administration, human resources, finance, information technology, investor relations, corporate governance, SEC compliance, general management, strategy development, taxes, audits, cash management, legal work, regulatory compliance and budgeting. Upon acquisition of InfuSystem by HAPC, these services will no longer be provided by I-Flow Corporation, and general and administrative expenses to InfuSystem may increase accordingly.

*Interest Expense*

Interest expense for the three and nine month periods ended September 30, 2006 was \$28,000 and \$86,000, respectively, compared to \$31,000 for both the three and nine months ended September 30, 2005, a decrease of 10% and an increase of 177%, respectively. The increase for the nine months ended September 30, 2006 was primarily due to an increase in the accrual of interest expense in connection with a dispute with the State of Michigan Department of Treasury related to use taxes on purchases of infusion pumps.

In August 2005, the State of Michigan Department of Treasury issued a decision and order of determination which provided that InfuSystem is liable for use taxes on its purchases of infusion pumps. As a result, InfuSystem has recorded through September 30, 2006 a cumulative net increase to gross fixed assets of \$1,168,000, a tax liability of \$1,281,000, and total expense of \$861,000 (of which \$221,000 and \$168,000 were recorded during the nine months ended September 30, 2006 and 2005, respectively, and \$78,000 and \$60,000 were recorded during the three months ended September 30, 2006 and 2005, respectively). The \$861,000 total expense recorded through September 30, 2006 consists of \$651,000 cost of sales (of which \$154,000 and \$137,000 were recorded during the nine months ended September 30, 2006 and 2005, respectively, and \$52,000 and \$48,000 were recorded during the three months ended September 30, 2006 and 2005, respectively) and \$210,000 accrued interest expense (of which \$66,000 and \$31,000 were recorded during the nine months ended September 30, 2006 and 2005, respectively, and \$26,000 and \$12,000 were recorded during the three months ended September 30, 2006 and 2005, respectively). InfuSystem is currently appealing the decision. InfuSystem believes that portable infusion pumps, which allow cancer patients to be ambulatory and to lead a reasonably normal life, qualify for an exemption from use tax under Michigan law.

*Income Tax Provision*

The income tax provision for the three and nine months ended September 30, 2006 was \$0.6 million and \$2.2 million, respectively, compared to \$1.1 million and \$2.4 million for the same periods in the prior year, decreases of 46% and 5%, respectively. The decreases were primarily attributable to a decrease in pretax income. InfuSystem's effective tax expense rates for the three and nine month periods ended September 30, 2006 were 35.9% and 36.4%, respectively, compared to 36.8% and 35.9% for the same periods in the prior year.

**Results of Operations for the Year Ended December 31, 2005 Compared to the Year Ended December 31, 2004***Revenue*

Revenue for the year ended December 31, 2005 was \$28.5 million, compared to \$19.3 million for the year ended December 31, 2004, an increase of 47%. The increase in revenue was substantially due to an increased usage of new drugs and clinical protocols that require the use of ambulatory electronic pumps instead of oral application or rapid (bolus) injection of chemotherapy drugs. Net revenues for the year ended December 31, 2005 increased despite the unfavorable impact of a market shortage of 5-Fluorouracil, a commonly-used chemotherapy drug, during the fourth quarter of 2005. InfuSystem estimated that the unfavorable revenue impact from the drug shortage was approximately \$1.9 million.

*Cost of Revenues*

Cost of revenues for the year ended December 31, 2005 was \$7.7 million, compared to \$5.6 million for the year ended December 31, 2004, an increase of 39%.



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Cost of revenues decreased as a percentage of revenues by two percentage points for the year ended December 31, 2005 compared to the prior year. The decrease was due to better pump utilization and to a decrease in the shipment of disposable supplies in proportion to revenues that resulted in decreased cost of sales in proportion to revenues. Fewer supplies were shipped because there was a shortage of 5-Fluorouracil during the fourth quarter of 2005. The decrease for the year ended December 31, 2005 was partially offset by an increase of \$77,000 of cost of sales recorded related to a dispute with the State of Michigan Department of Treasury concerning InfuSystem's potential liability for use taxes on purchases of infusion pumps.

In August 2005, the State of Michigan Department of Treasury issued a decision and order of determination which provided that InfuSystem is liable for use taxes on its purchases of infusion pumps. As a result, as of December 31, 2005 InfuSystem recorded a net increase to gross fixed assets of \$1,070,000, a tax liability of \$1,173,000, and total expense of \$641,000, consisting of \$497,000 of cost of sales (of which \$187,000 and \$110,000 were recorded during the years ended December 31, 2005 and 2004, respectively) and \$144,000 of accrued interest expense (of which \$49,000 and \$28,000 were recorded during the years ended December 31, 2005 and 2004, respectively). InfuSystem is currently appealing the decision. InfuSystem believes that portable infusion pumps, which allow cancer patients to be ambulatory and to lead a reasonably normal life, qualify for an exemption from tax under Michigan law.

*Selling and Marketing Expenses*

Selling and marketing expenses for the year ended December 31, 2005 were \$4.3 million, compared to \$3.2 million for the year ended December 31, 2004, an increase of 35%. The increase was primarily attributable to an increase in sales commissions and bonuses from higher revenues.

As a percentage of net revenues, selling and marketing expenses decreased by approximately one percentage point for the year ended December 31, 2005 versus the prior year because net revenues increased at a rate that outpaced the increase in selling and marketing expenses described above.

*General and Administrative Expenses*

General and administrative expenses for the year ended December 31, 2005 were \$8.4 million compared to \$5.9 million for the year ended December 31, 2004, an increase of 41%. The increase was primarily attributable to increases in non-cash compensation expense related to amortization of deferred compensation and an increase in compensation and related expenses. InfuSystem recognized stock-based compensation costs related to general and administrative expenses of approximately \$819,000 and \$99,000 during the years ended December 31, 2005 and 2004, respectively.

Increases in non-cash compensation expense related to the amortization of deferred compensation expenses for the year ended December 31, 2005 were primarily due to the recognition of stock-based compensation expense in connection with I-Flow's upward repricing and acceleration of the out-of-the-money stock options on November 9, 2005. The primary purposes of upward repricing and acceleration of the out-of-the-money stock options were to comply with new deferred compensation tax laws, to promote employee motivation, retention and the perception of option value, and to avoid recognizing future compensation expense associated with out-of-the-money stock options upon adoption of SFAS No. 123-revised 2004, Share-Based Payment (SFAS 123R). Increases in compensation and related expenses for the year ended December 31, 2005 were primarily due to increased staffing to support the growth of InfuSystem.

As a percentage of net revenues, general and administrative expenses decreased by approximately one percentage point for the year ended December 31, 2005 compared to the same period in the prior year because net revenues increased at a rate that outpaced the increase in general and administrative expenses described above.

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General and administrative expenses for the year ended December 31, 2005 do not include overhead costs associated with administrative services and corporate oversight that have historically been provided by I-Flow, InfuSystem's parent, at no charge to InfuSystem, including with respect to the following: insurance, benefits, employee stock option administration, human resources, finance, information technology, investor relations, corporate governance, SEC compliance, general management, strategy development, taxes, audits, cash management, legal work, regulatory compliance and budgeting. Upon acquisition of InfuSystem by HAPC, these services will no longer be provided by I-Flow, and general and administrative expenses to InfuSystem may increase accordingly.

*Interest Expense*

Interest expense for the year ended December 31, 2005 was \$50,000, compared to \$29,000 for the year ended December 31, 2004, an increase of 73%. The increase was primarily due to an increase in the accrual of interest expense by InfuSystem in connection with the previously described dispute with the State of Michigan Department of Treasury related to use taxes on purchases of infusion pumps.

*Income Tax Provision*

The income tax provision for the year ended December 31, 2005 was \$2.9 million, compared to \$1.7 million for the year ended December 31, 2004, an increase of 73%. The increase was primarily attributable to an increase in pre-tax income. InfuSystem's effective tax expense rate for the year ended December 31, 2005 was 36.6%, compared to 36.8% for the year ended December 31, 2004.

**Results of Operations for the Year Ended December 31, 2004 Compared to the Year Ended December 31, 2003**

*Revenue*

Revenue for the year ended December 31, 2004 was \$19.3 million, compared to \$13.0 million for the year ended December 31, 2003, an increase of 49%. The revenue increase was substantially due to an increased usage of new drugs and clinical protocols requiring the use of ambulatory electronic pumps as opposed to oral application or rapid (bolus) infusion of chemotherapy drugs.

*Cost of Revenues*

Cost of revenues for year ended December 31, 2004 was \$5.6 million, compared to \$4.0 million for the year ended December 31, 2003, an increase of 39%. The increase was primarily due to increases in operating supplies and material costs (\$0.7 million), and increased depreciation expense (\$0.6 million) due to the increasing size of InfuSystem's rental fleet of chemotherapy pumps. As a percentage of rental revenues, however, rental cost of revenue decreased by approximately two percentage points due to improved operational efficiency.

*Selling and Marketing Expenses*

Selling and marketing expenses for the year ended December 31, 2004 were \$3.2 million, compared to \$3.0 million for the year ended December 31, 2003, an increase of 8%. The increase was primarily attributable to increases in non-cash compensation expense related to amortization of deferred compensation.

As a percentage of net revenues, selling and marketing expenses decreased by approximately six percentage points for the year ended December 31, 2004 compared to the prior year because net revenues increased at a rate that outpaced the increase in selling and marketing expenses described above.

*General and Administrative Expenses*

General and administrative expenses for the year ended December 31, 2004 were \$5.9 million, compared to \$4.2 million for the year ended December 31, 2004, an increase of 43%.

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The increase was primarily attributable to increases in bad debt expense and compensation and related expenses. The increase in the provision for bad debts included \$0.7 million incremental provision for the estimated amount of uncollectible 2004 billings, partly attributable to the rapid growth of rental revenues. Increases in compensation and related expenses were primarily due to increased staffing to support growth of InfuSystem.

As a percentage of net revenues, general and administrative expenses decreased by approximately one percentage point for the year ended December 31, 2004, compared to the year ended December 31, 2003 because net revenues increased at a rate that outpaced the increase in general and administrative expenses described above.

General and administrative expenses for the year ended December 31, 2004 do not include overhead costs associated with administrative services and corporate oversight that have historically been provided by I-Flow, InfuSystem's parent, at no charge to InfuSystem, including with respect to the following: insurance, benefits, employee stock option administration, human resources, finance, information technology, investor relations, corporate governance, SEC compliance, general management, strategy development, taxes, audits, cash management, legal work, regulatory compliance and budgeting. Upon acquisition of InfuSystem by HAPC, these services will no longer be provided by I-Flow, and general and administrative expenses to InfuSystem may increase accordingly.

*Interest Expense*

Interest expense for the year ended December 31, 2004 was \$29,000 compared to \$32,000 for the year ended December 31, 2003, a decrease of 9%. The decrease was primarily due to the payoff of InfuSystem's capital leases for infusion pumps in 2003, offset in part by an increase in the accrual of interest expense by InfuSystem in connection with the previously described dispute with the State of Michigan Department of Treasury related to use taxes on purchases of infusion pumps.

*Income Tax Provision*

The income tax provision for the year ended December 31, 2004 was \$1.7 million, compared to \$0.7 million for the year ended December 31, 2003, an increase of 136%. InfuSystem's effective tax expense rate for the year ended December 31, 2004 was 36.8%, compared to 38.6% for the year ended December 31, 2003. The increase in the income tax provision was primarily attributable to an increase in pretax income, offset in part by the decrease in the effective tax expense rate. The decrease in the effective tax expense rate was the result of state apportionment factors and methods by which state taxes are calculated.

*Liquidity and Capital Resources*

During the nine-month period ended September 30, 2006, cash provided by operating activities was \$5.0 million, compared to \$2.0 million for the same period in the prior year. The increase in cash provided by operating activities was primarily due to a reduction in the rate of growth in accounts receivable and an increase in accounts payable, partially offset by an increase in payments for accrued payroll and related taxes and state income taxes and the lower current period income from operations, net of non-cash items.

During the nine-month period ended September 30, 2006, cash used in investing activities was \$1.6 million, compared to \$5.5 million for the same period in the prior year. The decrease in cash used in investing activities was primarily due to a decrease in the purchases of electronic infusion pumps to support the rental business. InfuSystem's purchases of electronic infusion pumps during the nine months ended September 30, 2006 were \$1.7 million compared to \$5.9 million during the nine months ended September 30, 2005.

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During the nine-month period ended September 30, 2006, cash used in financing activities was \$4.4 million, compared to cash provided by financing activities of \$3.8 million for the same period in the prior year. The increase in cash used in financing activities was primarily due to an increase in net dividends to I-Flow, InfuSystem's parent.

As of September 30, 2006, InfuSystem had cash and cash equivalents of \$1.5 million, net accounts receivable of \$10.2 million and net working capital of \$9.5 million. At that time, InfuSystem believed the then-current funds were sufficient to provide for InfuSystem's projected needs to maintain operations for at least the following 12 months.

During the nine months ended September 30, 2006, InfuSystem had no material changes outside the normal course of business in the contractual obligations and commercial commitments for the year ended December 31, 2005 and described below under the caption "Contractual Obligations and Commercial Commitments" as of 12/31/05. During the same period, InfuSystem had no material off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

During the year ended December 31, 2005, cash provided by operating activities was \$5.0 million, compared to \$5.9 million for the prior year. The decrease in cash provided by operating activities was primarily due to an increase in accounts receivable, offset in part by higher current period income from operations, net of non-cash items.

During the year ended December 31, 2005, cash used in investing activities was \$6.9 million, compared to \$5.5 million for the same period in the prior year. The change was primarily due to an increase in the purchases of electronic infusion pumps to support the growth of the business.

During the year ended December 31, 2005, cash provided by financing activities was \$3.5 million, compared to \$0.4 million for the same period in the prior year. The change was primarily due to an increase in net contributions to capital from I-Flow.

As of December 31, 2005, InfuSystem had cash and cash equivalents of \$2.5 million, net accounts receivable of \$9.2 million and net working capital of \$8.8 million. At that time, InfuSystem believed the then-current funds were sufficient to provide for InfuSystem's projected needs to maintain operations for at least the following 12 months. InfuSystem had a revolving line of credit with a bank under which it could borrow up to the lesser of \$3.5 million or 80% of eligible accounts receivable, as defined, at the bank's prime rate less 0.25% (7.0% at December 31, 2005). As of December 31, 2005, there were funds available for borrowing of \$3.5 million and no outstanding borrowings. The credit line expired on June 30, 2006 and has not been renewed. InfuSystem also had a loan facility with the same bank under which it could borrow up to \$2.5 million for the purchase of equipment. As of December 31, 2005, there were no outstanding borrowings under the loan facility. The loan facility expired on June 30, 2006 and has not been renewed.

**Critical Accounting Policies**

The Company prepares its financial statements in conformity with accounting principles generally accepted in the United States. Accordingly, the Company is required to make estimates, judgments and assumptions that the Company believes are reasonable based on the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. The critical accounting policies that the Company believes are the most important to aid in fully understanding and evaluating its reported financial results include the following:

*Revenue Recognition*

Rental revenue in the oncology market is the Company's strategic focus. The Company does not recognize revenue until all of the following criteria are met: persuasive evidence of an arrangement exists; shipment and

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passage of title has occurred; the price to the customer is fixed or determinable; and collectibility is reasonably assured. Persuasive evidence of an arrangement is determined to exist, and collectibility is reasonably assured, at the point in which a certificate of medical necessity and assignment of benefits, signed by the physician and patient, respectively, have been received by the Company, and the Company has verified actual pump usage and insurance coverage. Rental revenue from electronic infusion pumps is recognized as earned over the term of the related rental agreements, normally on a month-to-month basis. Pump rentals are billed at the Company's established rates, which often differ from contractually allowable rates provided by third party payors such as Medicare, Medicaid and commercial insurance carriers. Provision is made currently to reduce revenue to the estimated allowable amount per such contractual rates.

Due to the nature of the industry and the reimbursement environment in which the Company operates, certain estimates are required to record net revenues and accounts receivable at their net realizable values. Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available. Specifically, the complexity of many third-party billing arrangements and the uncertainty of reimbursement amounts for certain services from certain payors may result in adjustments to amounts originally recorded. Because of continuing changes in the healthcare industry and third-party reimbursement, it is possible that management's estimates could change in the near term, which could have an impact on operations and cash flows.

### *Accounts Receivable*

The Company performs periodic analyses to evaluate its accounts receivable balances. It records an allowance for doubtful accounts based on the estimated collectibility of the accounts such that the recorded amounts reflect estimated net realizable value. Upon determination that an account is uncollectible, the account is written-off and charged to the allowance.

In determining its accounts receivable balances and allowance for doubtful accounts, management considers historical realization data, accounts receivable aging trends, operating trends, and other relevant business conditions such as governmental and managed care payor claims processing procedures and system changes. The Company's analysis includes the application of specified percentages to the accounts receivable agings to estimate the amount that will ultimately be uncollectible and, therefore, should be reserved. The percentages are increased as the accounts age. Due to the continuing changes in the health care industry and third-party reimbursement, it is possible that management's estimates could change in the near term, which could have an impact on its financial position, results of operations and cash flows.

### *Fixed Assets*

Property is stated at cost and depreciated using the straight-line method over the estimated useful lives of the related assets, ranging from three to seven years. Rental equipment, consisting of ambulatory infusion pumps that the Company acquires from third-party manufacturers, is depreciated over five years. Leasehold improvements are amortized using the straight-line method over the life of the asset or the remaining term of the lease, whichever is shorter. Maintenance and minor repairs are charged to operations as incurred. When assets are sold, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recorded in the current period.

### *Income Taxes*

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*, which requires that the Company recognize deferred tax liabilities and assets based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities, using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax benefit (expense) results from the change in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when it is more likely than not that some or all of any deferred tax assets will not be realized. The Company's income taxes as presented in the financial statements have been prepared on a separate return basis.

**Table of Contents***Goodwill*

The Company recognizes goodwill in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ( SFAS 142 ). Under SFAS 142, goodwill is recorded at its carrying value and is tested for impairment at least annually. The Company reviews the recoverability of the carrying value of goodwill on an annual basis or more frequently if an event occurs or circumstances change to indicate that an impairment of goodwill has possibly occurred. The Company compares the fair value of its operating unit to the carrying value, as well as other factors, to determine whether or not any potential impairment of goodwill exists. If a potential impairment exists, an impairment loss is recognized to the extent the carrying value of goodwill exceeds the difference between the fair value of the operating unit and the fair value of its other assets and liabilities.

*Stock-Based Compensation*

Beginning January 1, 2006, the Company accounts for stock-based compensation in accordance with SFAS No. 123R, *Share-Based Payment* ( SFAS 123R ). Under the provisions of SFAS 123R, stock-based compensation cost is estimated at the grant date based on the award's fair value as calculated by the Black-Scholes option-pricing model and is recognized as expense ratably over the requisite service period. The Black-Scholes model requires various highly judgmental assumptions including volatility, forfeiture rates, and expected option life. If any of the assumptions used in the Black-Scholes model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

**Contractual Obligations and Commercial Commitments as of 12/31/05**

Contractual Obligations	Total	Payments due by Period (in thousands)				
		< 1 year	1 - 3 yrs.	3 - 5 yrs.	> 5 years	
Long-Term Debt Obligations	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	
Capital Lease Obligations	0	0	0	0	0	
Operating Lease Obligations*	344	227	117	0	0	
Purchase Obligations	0	0	0	0	0	
Other Long-Term Liabilities Reflected on Balance Sheet under GAAP	0	0	0	0	0	
Total	\$ 344	\$ 227	\$ 117	\$ 0	\$ 0	

\* Consists of leases for approximately 14,000 square feet of general office space and approximately 4,000 square feet of warehouse space in Madison Heights, Michigan.

**Table of Contents****Compensation of Executive Officers**

	Sales		401(k) Match	Car Allowance	Note 1 2005 I-Flow Restricted Stock Awards	Note 2 Stock Repricing	Note 3 Stock Option Exercised	Total
	Regular Salary	Comm. Overrides, Etc.						
Steven E. Watkins	\$ 230,143	\$ 0	\$ 145,000	\$ 5,067	\$ 201,033	\$ 95,178	\$ 138,920	\$ 815,340
Stephen C. Revere	89,818	0	32,000	1,582	103,875	30,702	0	257,977
Janet L. Skonieczny	120,874	189	95,000	2,918	133,306	64,840	422,942	840,069
Anthony E. Norkus	95,673	201,834	63,903	6,039	3,044	0	8,971	581,850
Thomas A. Bryniarski	76,153	200,463	63,903	4,443	4,106	0	8,971	0

## Notes:

- 1) The amounts shown in this column represent the dollar value of restricted stock awards (based on a closing price on the date of grant of I-Flow's common stock of \$13.85 per share) issued to the named executive officers on February 23, 2006 for performance in fiscal year 2005. The restricted stock award to Mr. Watkins of 14,515 shares, Mr. Revere of 7,500 shares and Ms. Skonieczny of 9,625 shares were each made pursuant to the I-Flow Corporation 2001 Equity Incentive Plan. Shares of the restricted stock awards are subject to a five-year vesting schedule under which 20% of the shares vest on each anniversary of the grant date until the fifth anniversary of the grant date.
  - 2) The stock awards shown were made to compensate option holders for increases in the exercise prices of outstanding options to comply with Section 409A of the Internal Revenue Code. On November 15, 2005, the I-Flow Board of Directors granted 7,840, 2,529, 5,341, 739 and 739 shares of common stock to Mr. Watkins, Mr. Revere, Ms. Skonieczny, Mr. Norkus and Mr. Bryniarski, respectively, and the values of these shares reflected in the table are based upon the Nasdaq last sale price of I-Flow's common stock on the grant date of \$12.14.
  - 3) The amounts shown represent the aggregate gains realized on stock option exercise during the fiscal year ended December 31, 2005 by the named executive officers.
- \* The amounts indicated are for fiscal year 2005. Acceleration features of the I-Flow restricted stock awards and payouts under InfuSystem's Management Incentive Program for 2006 and other transaction bonus agreements are not reflected in this data.

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**INFORMATION ABOUT HAPC**

**Business of HAPC**

**General**

HAPC was formed in Delaware on August 15, 2005. HAPC was formed specifically 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. The initial business combination entered into by HAPC 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.

A registration statement for HAPC's initial public offering was declared effective on April 11, 2006. On April 18, 2006, HAPC consummated its initial public offering of 16,666,667 units at a price of \$6.00 per unit. On May 18, 2006, HAPC sold 208,584 units to FTN Midwest Securities Corp. pursuant to a partial exercise by FTN Midwest Securities Corp. of its over-allotment option. The units were sold at the offering price of \$6.00 per unit, minus FTN Midwest Securities Corp.'s 7% underwriting discount. Each unit consists of one share of the HAPC's common stock, \$.0001 par value, and two redeemable common stock purchase warrants. The common stock and warrants began trading separately on the OTC Bulletin Board as of June 15, 2006.

Each warrant entitles the holder to purchase from HAPC 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 initial public offering and expiring five years from the effective date of the initial public offering.

HAPC 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. The warrants 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 holders of the warrants.

In addition, on April 18, 2006, HAPC 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 initial public offering, except that each of the warrants underlying this option entitles the holder to purchase one share of 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 or April 11, 2007 and expires on April 11, 2011. The option may only be exercised or converted by the option holder.

In connection with the initial public offering, HAPC paid to FTN Midwest Securities Corp. an underwriting discount of 7% of the initial public offering price and a non-accountable expense allowance of 1% of the initial public offering price.

The net proceeds from the sale of the HAPC units were approximately \$98,011,000 which includes a contingent underwriting fee of \$5,468,000. Of this amount, \$96,215,000 was deposited in trust and, in accordance with HAPC's amended and restated certificate of incorporation, will be released either upon the consummation of a business combination or upon the liquidation of HAPC. The remaining \$1,796,000 was held outside of the trust to provide for business, legal and accounting due diligence on prospective acquisitions and continuing general and administrative expenses. As of October 31, 2006, approximately \$98,016,572 was held in deposit in the trust account.

HAPC evaluated a number of candidates before moving forward with InfuSystem. If the acquisition of InfuSystem is not consummated, HAPC may not have enough time or resources to continue searching for an alternative target. In such event, HAPC would, if able, continue to conduct a search for a possible candidate in accordance with the criteria as previously disclosed in HAPC's publicly available filings with the Securities and Exchange Commission.



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### **Employees**

HAPC currently has three officers, two of whom, John Voris and Pat LaVecchia, are also members of the HAPC Board of Directors. John Voris is the chief executive officer and Pat LaVecchia is the secretary. Erin Enright is the vice president, chief financial officer and treasurer. None of HAPC's officers are full time employees. HAPC does not intend to hire full time employees until the consummation of the initial business combination.

### **Properties**

HAPC does not own any real estate or other physical properties materially important to its operation. The executive offices, which HAPC uses pursuant to an agreement with FTN Midwest Securities Corp., are located at 350 Madison Avenue, 20th Floor, New York, NY 10017.

### **Legal Proceedings**

To the knowledge of management, there is no litigation currently pending or contemplated against HAPC or any of its officers or directors in their capacity as such.

### **Periodic Reporting and Audited Financial Statements**

HAPC has registered its securities under the Securities Exchange Act of 1934 and has reporting obligations, including the requirement to file annual and quarterly reports with the Securities and Exchange Commission. In accordance with the requirements of the Securities Exchange Act of 1934, HAPC's annual reports will contain financial statements audited and reported on by HAPC's independent registered public accounting firm.

### **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. HAPC is not presently engaged in and, if the acquisition of InfuSystem or an alternative business combination is not consummated by the prescribed liquidation date of the trust fund, HAPC may not engage in any substantive commercial business. Accordingly, HAPC is not and, until such time as HAPC consummates a business combination, HAPC 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 HAPC's 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, HAPC does not view the interest rate or market risk to be significant.

### **Management's Discussion and Analysis of Financial Condition and Results of Operations of HAPC**

The following discussion should be read in conjunction with HAPC's financial statements and related notes thereto included elsewhere in this proxy statement.

### **Critical Accounting Policies**

Management's discussion addresses the consolidated financial statements of HAPC, 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.

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### *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**

HAPC was formed in Delaware on August 15, 2005. HAPC was formed specifically 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. The initial business combination entered into by HAPC 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.

Prior to entering into the Stock Purchase Agreement with InfuSystem and I-Flow, HAPC was engaged in sourcing a suitable business combination candidate. HAPC had met with target companies, service professionals and other intermediaries to discuss with them the background of HAPC's management and HAPC's combination preferences. In the course of these discussions, HAPC had also spent time explaining the capital structure of the initial public offering, the combination approval process, and the timeline under which HAPC was operating before the proceeds of the offering are returned to investors.

Overall, HAPC would conclude that the environment for target companies has been competitive and believes that private equity firms and strategic buyers represent its biggest competition. HAPC's management believes that many of the fundamental drivers of alternative investment vehicles like HAPC are becoming more accepted by investors and potential business combination targets. These drivers include a difficult environment for initial public offerings, a cash-rich investment community looking for differentiated opportunities for incremental yield and business owners seeking new ways to maximize their stockholder value while remaining invested in the business.

From August 2005 (inception) until December 31, 2005, HAPC had net losses of approximately \$24,783.

On April 18, 2006, HAPC consummated its initial public offering of 16,666,667 units at a price of \$6.00 per unit. Each unit consists of one share of HAPC common stock, \$.0001 par value, and two redeemable common stock purchase warrants. The common stock and warrants started trading separately on the OTC Bulletin Board as of June 15, 2006.

Each warrant entitles the holder to purchase from HAPC 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.

HAPC's net proceeds from the sale of the units were \$98,011,000 which includes a contingent underwriting fee of \$5,468,000. Of this amount, \$96,215,000 was deposited in trust. The remaining \$1,796,000 was held outside of the trust for use to provide for business, legal and accounting due diligence on prospective acquisitions and continuing general and administrative expenses. Given the proposed business combination with InfuSystem, HAPC anticipates that the \$1,796,000 of net proceeds of the initial public offering held outside the trust will have been exhausted by the time of closing of the proposed combination.

As of September 30, 2006, HAPC had (i) \$609,232 in cash outside the trust and (ii) \$5,483,100 in current liabilities including accrued legal fees, due diligence expenses and related transaction expenses and taxes. The consideration of \$140,000,000 to be paid to I-Flow in connection with the acquisition of InfuSystem will be funded by a promissory note payable to I-Flow in the initial principal amount of \$55,000,000 to be increased up to \$75,000,000 depending on the number of HAPC stockholders who exercise their conversion rights. Accordingly, HAPC believes it has adequate funds to complete the proposed acquisition of InfuSystem. In the event the business combination is not completed, HAPC could try to raise any required funds via a private

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offering of debt or equity securities to continue searching for an acquisition candidate. However there is no guarantee that HAPC would be successful in completing such fundraising on terms acceptable to HAPC and HAPC may be forced to liquidate. See Risk Factors .

***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, HAPC had not yet consummated a business combination with one or more operating businesses, however HAPC entered into the Stock Purchase Agreement with Acquisition Sub, InfuSystem and I-Flow on September 29, 2006 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 HAPC'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.

During the nine months ended September 30, 2006, in addition to incurring \$5,523,757 and \$13,049,996 of non-cash expenses, HAPC completed its 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 initial public offering.

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

***Liquidity and Capital Resources***

For the nine months ended September 30, 2006, HAPC 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, HAPC 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 HAPC'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 HAPC's initial public offering amounting to \$3,392,354.

HAPC entered into the Stock Purchase Agreement with Acquisition Sub, InfuSystem and I-Flow on September 29, 2006. 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 HAPC will have insufficient time and resources to complete an alternative business combination and will most likely have to liquidate after April 18, 2008 (or October 18, 2007, if no agreement is entered into).

On April 18, 2006, HAPC consummated its 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 HAPC's common stock, \$.0001 par value, and two

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redeemable common stock purchase warrants. Each warrant will entitle the holder to purchase from HAPC 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 initial public offering and expiring five years from the effective date of the initial public offering. HAPC 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, HAPC sold an additional 208,584 units pursuant to a partial exercise by FTN Midwest Securities Corp. of its overallotment option.

Net proceeds (including the underwriters overallotment) after underwriting, legal, accounting, and printing costs amounted to approximately \$98,011,000 which included a contingent underwriting fee of \$5,468,000. Of this amount approximately \$96,215,000 is being held in trust account and the remaining \$1,796,000 is being held outside the trust account. The remaining proceeds are available to be used by HAPC to provide for business, legal and accounting due diligence on prospective acquisitions and continuing general and administrative expenses. HAPC will use substantially all of the net proceeds of the initial public offering to acquire Infusystem.

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

HAPC granted a purchase option to the representative of the underwriter at the closing of the initial 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 initial public offering, except that each of the warrants underlying this option entitles the holder to purchase one share of HAPC 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 will be no net impact on HAPC's financial position or results of operations, except for the recording of the \$100 proceeds from the sale. HAPC has preliminarily estimated that the fair value of the option on the date of sale would be approximately \$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%.

**Off-Balance Sheet Arrangements**

As of September 30, 2006, HAPC did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

**Contractual Obligations**

HAPC does not have any contractual obligations.

**Changes in HAPC'S Certifying Accountant**

Effective as of October 23, 2006, the Audit Committee of HAPC engaged Deloitte & Touche LLP as its independent registered public accounting firm to audit HAPC's financial statements for its fiscal year ending December 31, 2006. The Audit Committee approved the appointment of Deloitte & Touche LLP to replace Miller, Ellin and Company, LLP, HAPC's previous independent registered public accounting firm, who was dismissed on October 23, 2006.

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The reports of Miller, Ellin and Company, LLP on HAPC's balance sheets as of December 31, 2005 and April 18, 2006 and the related statements of operations, stockholders equity (deficit) and cash flows for the periods from August 15, 2005 (inception) to December 31, 2005, from January 1, 2006 to April 18, 2006, and from August 15, 2005 (inception) to April 18, 2006, did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principle.

During the periods from August 15, 2005 (inception) through December 31, 2005 and from January 1, 2006 through April 18, 2006, there were no disagreements with Miller, Ellin and Company, LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the satisfaction of Miller, Ellin and Company, LLP, would have caused them to make reference to the subject matter of the disagreement in connection with their reports on HAPC's balance sheets as of December 31, 2005 and April 18, 2006 and the related statements of operations, stockholders equity (deficit) and cash flows for the periods from August 15, 2005 (inception) to December 31, 2005, from January 1, 2006 to April 18, 2006, and from August 15, 2005 (inception) to April 18, 2006. During the periods from August 15, 2005 (inception) through December 31, 2005, from January 1, 2006 through April 18, 2006 and for the subsequent interim period from April 19, 2006 through October 23, 2006, there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

HAPC furnished a copy of the above disclosures to Miller, Ellin and Company, LLP and requested that Miller, Ellin and Company, LLP furnish it with a letter addressed to the U.S. Securities and Exchange Commission stating whether or not it agreed with the above statements. A copy of such letter, dated October 27, 2006, was filed as Exhibit 16.1 to HAPC's Current Report on Form 8-K on October 27, 2006.

Prior to the engagement of Deloitte & Touche LLP, neither HAPC nor anyone on behalf of HAPC consulted with Deloitte & Touche LLP during the periods from August 15, 2005 (inception) through December 31, 2005, from January 1, 2006 through April 18, 2006 and for the subsequent interim period from April 19, 2006 through October 23, 2006, in any manner regarding: (a) either the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on HAPC's financial statements, and neither was a written report provided to HAPC nor was oral advice provided that Deloitte & Touche LLP concluded was an important factor considered by HAPC in reaching a decision as to the accounting, auditing, or financial reporting issue, or (B) the subject of either a disagreement or a reportable event, as defined in Item 304(a)(1)(iv) and (v), respectively, of Regulation S-K.

**Dissolution and Liquidation if No Business Combination**

If HAPC does not complete a business combination within 18 months after the consummation of its initial public offering or within 24 months if the extension criteria described below have been satisfied, HAPC will be liquidated and will distribute to all of its public stockholders, in proportion to their respective equity interests, an aggregate sum equal to the amount in the trust account, inclusive of any interest, plus any remaining net assets. HAPC's initial stockholders will not have (and any person to whom HAPC transfers its reserved treasury shares will, as a condition to the transfer, be required to agree to not have) the right to participate in any liquidation distribution occurring upon HAPC's failure to consummate a business combination with respect to their shares of common stock. HAPC's initial stockholders and other members of its management agreed prior to the completion of its initial public offering (and any person to whom HAPC transfers its reserved treasury shares will, as a condition to the transfer, be required to agree) not to purchase any additional shares of common stock, whether as part of HAPC's initial public offering or otherwise, prior to the completion of a business combination and will, therefore, have no right to participate in a liquidation distribution. There will be no distribution from the trust account with respect to HAPC's warrants, and all rights with respect to HAPC's warrants will effectively cease upon HAPC's liquidation.

If HAPC were to expend all of the net proceeds of its initial public offering, other than the proceeds deposited in the trust account, taking into account interest earned subsequent to the initial public offering earned

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on the trust account, the initial per-share liquidation price would be \$5.81 as of October 31, 2006, less income taxes owed on accrued interest. The proceeds deposited in the trust account could, however, become subject to the claims of HAPC's creditors which could be prior to the claims of its public stockholders. Messrs. McDevitt and LaVecchia have agreed that, if HAPC liquidates prior to the consummation of a business combination, they will be personally liable, on a joint and several basis, to ensure that the proceeds in the trust account are not reduced by the claims of various vendors that are owed money by HAPC for services rendered or contracted for or products sold to HAPC, or claims of other parties with which HAPC has contracted, including the claims of any prospective target with which HAPC has entered into a written letter of intent, confidentiality or non-disclosure agreement with respect to a failed business combination with such prospective target. However, HAPC cannot assure you that Messrs. McDevitt and LaVecchia will be able to satisfy those obligations. Messrs. McDevitt and LaVecchia are not personally liable to pay any of HAPC's debts and obligations except as provided above. Accordingly, HAPC cannot assure you that the actual per-share liquidation price will not be less than \$5.81, less income taxes owed on accrued interest, due to claims of creditors.

If HAPC is unable to complete the transactions contemplated by the Stock Purchase Agreement with InfuSystem and I-Flow by October 18, 2007, 18 months from the consummation of HAPC's initial public offering, then HAPC will have an additional six months in which to complete acquisition of InfuSystem. If HAPC is unable to do so by April 18, 2008, 24 months from the date of the consummation of its initial public offering, HAPC will then liquidate. Upon notice from HAPC, the trustee of the trust account will commence liquidating the investments constituting the trust account and will turn over the proceeds to HAPC's transfer agent for distribution to its public stockholders. HAPC anticipates that its instruction to the trustee would be given promptly after the expiration of the 18-month or 24-month period, as applicable.

HAPC's public stockholders will be entitled to receive funds from the trust account only in the event of HAPC's liquidation or if the stockholders seek to convert their respective shares into cash upon the consummation of a business combination which the stockholder voted against and which is actually completed by HAPC. In no other circumstances, except as required by applicable law, will a stockholder have any right or interest of any kind to or in the trust account.

As required under Delaware law, HAPC will seek stockholder approval for any plan of dissolution and liquidation. HAPC currently believes that any plan of dissolution and liquidation subsequent to the expiration of the 18 and 24 month deadlines would proceed in approximately the following manner (subject to HAPC's agreement to take earlier action as described below):

the HAPC Board of Directors will, consistent with its obligations described in HAPC's amended and restated certificate of incorporation to dissolve, prior to the passing of such deadline, convene and adopt a specific plan of dissolution and liquidation, which it will then vote to recommend to HAPC's stockholders; at such time HAPC will also prepare a preliminary proxy statement setting out such plan of dissolution and liquidation as well as the HAPC Board of Directors' recommendation of such plan;

upon such deadline (or earlier as described below), HAPC would file its preliminary proxy statement with the SEC;

if the SEC does not review the preliminary proxy statement, then, 10 days following the filing date, HAPC will file a definitive proxy statement with the SEC and will mail the definitive proxy statement to its stockholders, and 30 days following the mailing, HAPC will convene a meeting of its stockholders, at which they will either approve or reject HAPC's plan of dissolution and liquidation; and

if the SEC does review the preliminary proxy statement, HAPC currently estimates that it will receive their comments approximately 30 days following the filing of the preliminary proxy statement. HAPC will mail a definitive proxy statement to its stockholders following the conclusion of the comment and review process (the length of which HAPC cannot predict with any certainty, and which may be substantial) and HAPC will convene a meeting of its stockholders as soon as permitted thereafter.

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In addition, if HAPC seeks approval from its stockholders to consummate a business combination within 90 days of the expiration of 24 months after the consummation of its initial public offering (assuming that the period in which HAPC needs to consummate a business combination has been extended, as provided in its amended and restated certificate of incorporation), the proxy statement related to such business combination will also seek stockholder approval for the HAPC Board's recommended plan of dissolution and liquidation, in the event HAPC's stockholders do not approve such business combination. If no proxy statement seeking the approval of HAPC's stockholders for a business combination has been filed 30 days prior to the date that is 24 months after the consummation of its initial public offering, the HAPC Board will, prior to such date, convene, adopt and recommend to its stockholders a plan of dissolution and liquidation and, on such date, file a proxy statement with the SEC seeking stockholder approval for such plan.

In the event that HAPC seeks stockholder approval for a plan of dissolution and liquidation and does not obtain such approval, HAPC will nonetheless continue to take all reasonable actions to obtain stockholder approval for its dissolution. Pursuant to the terms of HAPC's amended and restated certificate of incorporation, its purpose and powers following the expiration of the permitted time periods for consummating a business combination will automatically be limited to acts and activities relating to dissolving and winding up its affairs, including liquidation. Following the expiration of such time periods, the funds held in the trust account may not be distributed except upon HAPC's dissolution and, unless and until such approval is obtained from HAPC's stockholders, the funds held in HAPC's trust account will not be released. Consequently, holders of a majority of HAPC's outstanding stock must approve its dissolution in order to receive the funds held in the trust account, and the funds will not be available for any other corporate purpose. HAPC's existing stockholders have agreed to vote all the shares of common stock held by them in favor of the dissolution. HAPC cannot assure you that its stockholders will approve the dissolution in a timely manner or will ever approve the dissolution. As a result, HAPC cannot provide investors with assurances of a specific time frame for the dissolution and distribution.

HAPC expects that its total costs and expenses associated with the implementing and completing the stockholder-approved plan of dissolution and liquidation will be in the range of \$50,000 to \$75,000. This amount includes all costs and expenses related to filing HAPC's dissolution in the State of Delaware, the winding up of the company and the costs of a proxy statement and meeting relating to the approval by HAPC's stockholders of its plan of dissolution and liquidation. HAPC believes that there should be sufficient funds available from the proceeds not held in the trust account to fund the \$50,000 to \$75,000 of expenses, although it cannot give you assurances that there will be sufficient funds for such purposes.

Under the Delaware General Corporation Law, stockholders may be held liable for claims by third parties against a corporation to the extent of distributions received by them in a dissolution. If HAPC complied with certain procedures set forth in Section 280 of the Delaware General Corporation Law intended to ensure that a corporation makes reasonable provision for all claims against it, including a 60-day notice period during which any third-party claims can be brought against the corporation, a 90-day period during which the corporation may reject any claims brought, and an additional 150-day waiting period before any liquidating distributions are made to stockholders, any liability of a stockholder with respect to a liquidating distribution is limited to the lesser of such stockholder's pro rata share of the claim or the amount distributed to the stockholder, and any liability of the stockholder would be barred after the third anniversary of the dissolution. However, it is HAPC's intention to make liquidating distributions to its public stockholders as soon as reasonably possible after dissolution and, therefore, HAPC does not intend to comply with those procedures. As such, HAPC's public stockholders could potentially be liable for any claims to the extent of distributions received by them in a dissolution and any such liability of its public stockholders will likely extend beyond the third anniversary of such dissolution. Because HAPC will not be complying with Section 280, HAPC will seek stockholder approval to comply with Section 281(b) of the Delaware General Corporation Law, requiring it to adopt a plan of dissolution that will provide for payment, based on facts known to HAPC at such time, of (i) all existing claims, (ii) all pending claims, and (iii) all claims that may be potentially brought against HAPC within the subsequent 10 years. However, because HAPC is a blank check company rather than an operating company, and its operations will be limited to searching for prospective target businesses to acquire, the only likely claims to arise would be from its

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vendors (such as accountants, lawyers, investment bankers, etc.) or potential target businesses. As described above, HAPC seeks to have all vendors and prospective target businesses execute valid and enforceable agreements with HAPC waiving any right, title, interest or claim of any kind in or to any monies held in the trust account and to date have entered into such agreements with InfuSystem. As a result, HAPC believes the claims that could be made against it will be significantly reduced and the likelihood that any claim that would result in any liability extending to the trust will be limited.



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**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

The following unaudited pro forma condensed combined balance sheet combines the historical balance sheets of InfuSystem and HAPC as of September 30, 2006, giving effect to the acquisition of InfuSystem as if the acquisition had been consummated on September 30, 2006. The following unaudited pro forma condensed combined statements of operations combined the historical statement of income of InfuSystem for the year ended December 31, 2005 and the historical statement of operations of HAPC for the period from August 15, 2005 (date of inception) to December 31, 2005 and the historical combined statement of income of InfuSystem and the historical statement of operations of HAPC for the nine months ended September 30, 2006, giving effect to the merger as if it had occurred on January 1, 2005. We are providing the following information to aid you in your analysis of the financial aspects of the merger. We derived this information for the year ended December 31, 2005, from the audited financial statement of InfuSystem and the audited financial statements of HAPC for period from August 15, 2005 (date of inception) to December 31, 2005 and the information for the nine months ended September 30, 2006 from the unaudited financial statement of InfuSystem and the unaudited financial statements of HAPC for that period. This information should be read together with the respective HAPC and InfuSystem financial statements and related notes included in this proxy statement.

The historical financial information has been adjusted to give effect to events that are directly attributable to the merger, factually supportable, and expected to have a continuing impact on the combined results. The unaudited pro forma condensed combined financial statements were prepared using the purchase method of accounting, with InfuSystem as the acquired company. Under the purchase method of accounting, the purchase price, including transaction costs, to acquire InfuSystem will be allocated to the underlying net assets, based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired will be recorded as goodwill. The purchase price allocation is preliminary and will be subject to a final determination upon closing of the acquisition of the acquired business. The final determination of the purchase price allocation may result in material allocation differences when compared to this preliminary allocation and the impact of the revised allocation may have a material effect on the actual results of operation and financial position of the combined entities.

The unaudited pro forma condensed combined information is for illustrative purposes only. The pro forma combined financial information may not be indicative of the historical results that would have been achieved had the companies always been combined or the future results that the combined company will experience nor do they purport to project the future financial position or operating results of the combined company.

The follow information should be read in conjunction with the pro forma condensed combined financial statements:

Accompanying notes to the unaudited pro forma condensed combined financial statements;

Historical financial statements of HAPC for the period from August 15, 2005 (date of inception) through December 31, 2005 and the nine months ended September 30, 2006 included elsewhere in this proxy statement;

Separate historical financial statements of InfuSystem for the year ended December 31, 2005 and the nine months ended September 30, 2006 included elsewhere in this proxy statement.

The unaudited pro forma condensed combined financial information has been prepared assuming two different levels of approval of the merger by HAPC stockholders, as follows:

Assuming Maximum Redemption: This presentation assumes that 19.99% of the HAPC stockholders exercise their conversion rights; and

Assuming No Share Redemption: This presentation assumes no HAPC stockholders exercise their conversion rights.

**Table of Contents****UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET**

Assuming Maximum Share Redemption

September 30, 2006

(Amounts in Thousands)

	InfuSystem, Inc.	HAPC, Inc.		Pro Forma Adjustments	Pro Forma Combined
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 1,481	\$ 609	1	(65,634)	
			3	(75)	
			4	(4,375)	
			5	(1,955)	
			9	(1,859)	
			12	97,625	
			14	(19,515)	\$ 6,302
Accounts receivable, net	10,244				10,244
Inventories	264				264
Investments held in trust		97,625	12	(97,625)	
Prepaid Expense		349	3	75	424
Other current assets	152				152
Deferred acquisition costs		386	5	(386)	
Deferred taxes	733		2	(733)	
<b>Total current assets</b>	<b>12,874</b>	<b>98,969</b>		<b>(94,457)</b>	<b>17,386</b>
Property and equipment, net	11,402				11,402
Goodwill and other intangible assets	2,174		1	78,026	
			5	2,341	82,541
Financing Costs			9	1,859	1,859
Trade Name and Trademarks			1	7,300	7,300
Physician Relationships			1	32,300	32,300
<b>Total assets</b>	<b>\$ 26,450</b>	<b>\$ 98,969</b>		<b>\$ 27,369</b>	<b>\$ 152,788</b>
<b>Current liabilities:</b>					
Accounts payable	\$ 1,213	\$			\$ 1,213
Current portion of long-term debt			1	3,718	3,718
Other current liabilities	2,130	15			2,145
Deferred underwriting fees		5,468	4	(5,468)	
<b>Total Current Liabilities</b>	<b>3,343</b>	<b>5,483</b>		<b>(1,750)</b>	<b>7,076</b>
Deferred Taxes	1,394		2	(1,394)	
Long-term debt, net of current portion			1	70,648	70,648
<b>Total liabilities</b>	<b>4,737</b>	<b>5,483</b>		<b>67,504</b>	<b>77,724</b>
Common stock subject to possible conversion		19,515	14	(19,515)	
<b>Stockholders' equity:</b>					
Common stock		2			2
Additional paid-in capital	8,544	94,359	1	(8,544)	
			4	1,093	
			11	(2,887)	92,565
Unearned stock compensation		(2,887)	11	2,887	
Retained Earnings (Accumulated deficit)	13,911	(25)	1	(13,911)	(25)
Distributions to Parent	(4,669)		1	4,669	

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Income for current period	3,927	(17,478)	1	(3,927)	(17,478)
Total stockholders' equity	21,713	73,971		(20,620)	75,064
Total liabilities and stockholders' equity	\$ 26,450	\$ 98,969		\$ 27,369	\$ 152,788

Table of Contents**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS**

For the Nine Months Ended September 30, 2006

Assuming Maximum Share Redemption

(Amounts in Thousands, except share and per share data)

	InfuSystem, Inc.	HAPC, Inc.		Pro Forma Adjustments	Pro Forma Combined
Revenue	\$ 23,508	\$ 7		754	\$ 24,262
Cost of sales	6,287				6,287
<b>Gross Profit</b>	<b>17,221</b>			<b>754</b>	<b>17,975</b>
Selling, general and administrative expense	10,959	18,896			
			10	57	
			11	(18,574)	11,338
Amortization of physician relationships			8	1,211	1,211
<b>Total operating costs</b>	<b>10,959</b>	<b>18,896</b>		<b>(17,306)</b>	<b>12,549</b>
<b>Operating income (loss)</b>	<b>6,262</b>	<b>(18,896)</b>		<b>18,060</b>	<b>5,426</b>
Other income ( expense)					
Interest income		2,032	13	(2,032)	
Interest expense	(86)	(1)	6	(5,455)	(5,891)
			8	(349)	
<b>Total other income (expense)</b>	<b>(86)</b>	<b>2,031</b>		<b>(7,836)</b>	<b>(5,891)</b>
<b>Income (loss) before income taxes</b>	<b>6,176</b>	<b>(16,865)</b>		<b>10,224</b>	<b>(465)</b>
Income tax provision	2,249	613	2	(2,714)	148
<b>Net income (loss)</b>	<b>\$ 3,927</b>	<b>\$ (17,478)</b>		<b>\$ 12,938</b>	<b>\$ (613)</b>
<b>Pro forma net loss per share</b>					\$ (0.040)
<b>Weighted average number of common shares outstanding</b>					15,251,889

**Table of Contents****UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET**

Assuming No Share Redemptions

September 30, 2006

(Amounts in Thousands)

	InfuSystem, Inc.	HAPC, Inc.		Pro Forma Adjustments	Pro Forma Combined
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 1,481	\$ 609	1	(85,000)	
			3	(75)	
			4	(5,468)	
			5	(1,955)	
			9	(1,375)	
			12	97,625	\$ 5,842
Accounts receivable, net	10,244				10,244
Inventories	264				264
Investments held in trust		97,625	12	(97,625)	
Prepaid Expense			3	75	75
Other current assets	152	349			501
Deferred acquisition costs		386	5	(386)	
Deferred taxes	733		2	(733)	
<b>Total current assets</b>	<b>12,874</b>	<b>98,969</b>		<b>(94,917)</b>	<b>16,926</b>
Property and equipment, net	11,402				11,402
Goodwill and other intangible assets	2,174		1	78,026	82,541
			5	2,341	1,375
<b>Financing Costs</b>			9	1,375	1,375
Tradename and Trademarks			1	7,300	7,300
Physician Relationships			1	32,300	32,300
<b>Total assets</b>	<b>\$ 26,450</b>	<b>\$ 98,969</b>		<b>\$ 26,425</b>	<b>\$ 151,844</b>
<b>Current liabilities:</b>					
Accounts payable	\$ 1,213	\$			1,213
Current portion of long-term debt			1	2,750	2,750
Other current liabilities	2,130	15			2,145
Deferred underwriting fees		5,468	4	(5,468)	
<b>Total Current Liabilities</b>					
	3,343	5,483		(2,718)	6,108
Deferred Taxes	1,394		2	(1,394)	
Long-term debt, net of current portion			1	52,250	52,250
<b>Total liabilities</b>	<b>4,737</b>	<b>5,483</b>		<b>48,138</b>	<b>58,358</b>
Common stock subject to possible conversion					
		19,515	14	(19,515)	
<b>Stockholders' equity:</b>					

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Common stock		2			2
Additional paid-in capital	8,544	94,359	1	(8,544)	
			11	(2,887)	
			14	19,515	110,987
Unearned stock compensation		(2,887)	11	2,887	
Retained Earnings (Accumulated deficit)	13,911	(25)	1	(13,911)	(25)
Distributions to Parent	(4,669)		1	4,669	
Income for current period	3,927	(17,478)	1	(3,927)	(17,478)
Total stockholders' equity	21,713	73,971		(2,198)	93,486
Total liabilities and stockholders' equity	\$ 26,450	\$ 98,969		\$ 26,425	\$ 151,844

**Table of Contents****UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS**

For the Nine Months Ended September 30, 2006

Assuming No Share Redemptions

(Amounts in Thousands, except share and per share data)

	InfuSystem, Inc.	HAPC, Inc.		Pro Forma Adjustments	Pro Forma Combined
Revenue	\$ 23,508	\$ 7		754	\$ 24,262
Cost of sales	6,287				6,287
<b>Gross Profit</b>	<b>17,221</b>			<b>754</b>	<b>17,975</b>
Selling, general and administrative expense	10,959	18,896	10	57	
			11	(18,574)	11,338
Amortization of physician relationship costs			8	1,211	1,211
<b>Total operating costs</b>	<b>10,959</b>	<b>18,896</b>		<b>(17,306)</b>	<b>12,549</b>
<b>Operating income (loss)</b>	<b>6,262</b>	<b>(18,896)</b>		<b>18,060</b>	<b>5,426</b>
Other income (expense)					
Interest income		2,032	13	(2,032)	
Interest expense	(86)	(1)	6	(4,034)	(4,379)
			8	(258)	
<b>Total other income (expense)</b>	<b>(86)</b>	<b>2,031</b>		<b>(6,324)</b>	<b>(4,379)</b>
<b>Income (loss) before income taxes</b>	<b>6,176</b>	<b>(16,865)</b>		<b>11,736</b>	<b>1,047</b>
Income tax provision	2,249	613	2	(2,321)	541
<b>Net income (loss)</b>	<b>\$ 3,927</b>	<b>\$ (17,478)</b>		<b>\$ 14,057</b>	<b>\$ 506</b>
<b>Pro forma net income per share</b>					<b>\$ 0.027</b>
<b>Weighted average number of common shares outstanding</b>					<b>18,625,252</b>

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## UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

Year Ended December 31, 2005

Assuming Maximum Share Redemption

(Amounts in Thousands, except share and per share data)

	InfuSystem, Inc.	HAPC, Inc.		Pro Forma Adjustments	Pro Forma Combined
Revenue	\$ 28,525	\$ 7		623	\$ 29,148
Cost of sales	7,735				7,735
<b>Gross Profit</b>	<b>20,790</b>			<b>623</b>	<b>21,413</b>
Selling, general and administrative expense	12,709	25	3	75	
			11	(25)	12,784
Amortization of physician relationships			8	1,615	1,615
<b>Total operating costs</b>	<b>12,709</b>	<b>25</b>		<b>1,665</b>	<b>14,399</b>
<b>Operating income (loss)</b>	<b>8,081</b>	<b>(25)</b>		<b>(1,042)</b>	<b>7,014</b>
Other income (expense)					
Interest income					
Interest expense	(50)		6	(6,600)	(7,115)
			8	(465)	
<b>Total other income (expense)</b>	<b>(50)</b>			<b>(7,065)</b>	<b>(7,115)</b>
<b>Income (loss) before income taxes</b>	<b>8,031</b>	<b>(25)</b>		<b>(8,107)</b>	<b>(101)</b>
Income tax provision	2,938		2	(2,644)	294
<b>Net income (loss)</b>	<b>\$ 5,093</b>	<b>\$ (25)</b>		<b>\$ (5,463)</b>	<b>\$ (395)</b>
<b>Pro forma net loss per share</b>					<b>\$ (0.026)</b>
<b>Weighted average number of common shares outstanding</b>					15,251,889



**Table of Contents****UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS**

Year Ended December 31, 2005

Assuming No Share Redemptions

(Amounts in Thousands, except share and per share data)

	InfuSystem, Inc.	HAPC, Inc.		Pro Forma Adjustments	Pro Forma Combined
Revenue	\$ 28,525	\$ 7		623	\$ 29,148
Cost of sales	7,735				7,735
<b>Gross Profit</b>	<b>20,790</b>			<b>623</b>	<b>21,413</b>
Selling, general and administrative expense	12,709	25	3	75	
			11	(25)	12,784
Amortization of physician relationships			8	1,615	1,615
<b>Total operating costs</b>	<b>12,709</b>	<b>25</b>		<b>1,665</b>	<b>14,399</b>
<b>Operating income (loss)</b>	<b>8,081</b>	<b>(25)</b>		<b>(1,042)</b>	<b>7,014</b>
Other income ( expense)					
Interest income					
Interest expense	(50)		6	(4,881)	(5,275)
			8	(344)	
<b>Total other income (expense)</b>	<b>(50)</b>			<b>5,225</b>	<b>(5,275)</b>
<b>Income (loss) before income taxes</b>	<b>8,031</b>	<b>(25)</b>		<b>(6,267)</b>	<b>1,739</b>
Income tax provision	2,938		2	(2,035)	903
<b>Net income (loss)</b>	<b>\$ 5,093</b>	<b>\$ (25)</b>		<b>\$ (4,232)</b>	<b>\$ 836</b>
<b>Pro forma net income per share</b>					<b>\$ 0.045</b>
<b>Weighted average number of common shares outstanding</b>					<b>18,625,252</b>

**Table of Contents****Notes to Pro Forma Condensed Combined Financial Statements**

Adjustments included in the column under the heading "Pro Forma Adjustments" include: (in thousands, except per share amounts)

***Maximum Share Redemption***

- To reflect payment for the purchase of the InfuSystem shares, to reflect seller secured promissory note issued by InfuSystem and to eliminate InfuSystem equity under the purchase method of accounting as follows:

Cash Consideration paid	\$ 65,634
Seller Secured Promissory Note	74,366
<b>Total Purchase Price</b>	<b>140,000</b>
Current Assets	12,141
Property and Equipment	11,402
Current Liabilities	(3,343)
	(20,200)
Excess of Purchase Price over net assets acquired	\$ 119,800
<b>Excess of Purchase Price over net assets acquired allocated as follows:</b>	
Physician Relationships	\$ 32,300
Trade Name and Trademarks	7,300
Goodwill	80,200
	<b>\$ 119,800</b>

- To eliminate deferred income taxes and reflect income tax provision impact. The transaction will be treated as an asset purchase for tax purposes. The company has assumed a full valuation allowance for any deferred tax assets.
- To reflect \$75 payment of annual administration fee to InfuSystem recorded as a prepaid expense.
- To record payment at closing of the contingent deferred underwriting fees to FTN Midwest of \$4,375 assuming maximum share redemption.
- To reflect payment of transaction related expense estimated at \$2,341.
- To reflect payment of interest expense to I Flow under terms of promissory note in the amounts of \$5,455 and \$6,600 for the nine months ended September 30, 2006 and for the year ended December 31, 2005, respectively. The average interest rates during these periods were 10.46% and 8.93%, respectively.

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Assuming interest rates increased or decreased by ten percent (10%) during the nine months ended September 30, 2006, interest expense to I Flow would have been \$6,001 and \$4,910, respectively.

Assuming interest rates increased or decreased by ten percent (10%) during the year ended December 31, 2005, interest expense to I Flow would have been \$7,260 and \$5,940, respectively.

7. To recognize revenues under the amended and restated services agreement between InfuSystem and I-Flow Corporation related to billing and collection services for the year ended December 31, 2005 and for the nine months ended September 30, 2006.
8. To record amortization of financing costs over four years (life of promissory note) (included in interest expense) and physicians relationship costs (included in operating costs) over twenty years, respectively.
9. To reflect payment of facility fee representing 2.50% of original amount I Flow promissory note recorded as financing cost and amortized over four years.

**Table of Contents****Notes to Pro Forma Condensed Combined Financial Statements (Continued)**

10. To amortize prepaid expense for \$75 annual administrative fee payable on January 1 to I Flow.
11. To eliminate nonrecurring stock based compensation charges of \$18,574 recorded by HAPC for the nine months ended September 30, 2006 and \$25 for the year ended December 31, 2005 and to reduce additional paid in capital by the remaining unearned stock compensation of \$2,887. These charges are directly related to the transaction and are contingent upon the closing of the acquisition. The related stock compensation would be worthless in the event the acquisition is not consummated.
12. To reflect the release of funds raised by HAPC's initial public offering which are currently held in trust at JP Morgan Chase Bank.
13. To eliminate interest income from trust funds held at JP Morgan Chase Bank assuming closing on January 1, 2005.
14. To record the payment of the common stock subject to conversion assuming minimum stockholder approval in the amount of \$19,515 in cash to dissenting HAPC stockholders.

***No Share Redemption***

1. To reflect payment for the purchase of the InfuSystem shares, to reflect seller secured promissory note issued by InfuSystem and to eliminate InfuSystem equity under the purchase method of accounting as follows:

Cash Consideration paid	\$ 85,000
Seller Secured Promissory Note	55,000
<b>Total Purchase Price</b>	<b>140,000</b>
Current Assets	12,141
Property and Equipment	11,402
Current Liabilities	(3,343)
	<b>(20,200)</b>
Excess of Purchase Price over net assets acquired	\$ 119,800
<b>Excess of Purchase Price over net assets acquired allocated as follows:</b>	
Physician Relationships	\$ 32,300
Trade Name and Trademarks	7,300
Goodwill	80,200
	<b>\$ 119,800</b>

2. To eliminate deferred income taxes and reflect income tax provision impact. The transaction will be treated as an asset purchase for tax purposes. The Company has assumed a full valuation allowance for any deferred tax assets.

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3. To reflect \$75 payment of annual administration fee to I Flow recorded as a prepaid expense.
4. To record payment at closing of the contingent deferred underwriting fees to FTN Midwest of \$5,468 assuming no share redemption.
5. To reflect payment of transaction related expense estimated at \$2,341.
6. To reflect payment of interest expense to I Flow under terms of promissory note in the amounts of \$4,034 and \$4,881 for the nine months ended September 30, 2006 and for the year ended December 31, 2005, respectively. The average interest rates during these periods were 10.46% and 8.93%, respectively.

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**Notes to Pro Forma Condensed Combined Financial Statements (Continued)**

Assuming interest rates increased or decreased by ten percent (10%) during the nine months ended September 30, 2006, interest expense to I Flow would have been \$4,437 and \$3,631, respectively.

Assuming interest rates increased or decreased by ten percent (10%) during the year ended December 31, 2005, interest expense to I Flow would have been \$5,369 and \$4,393, respectively.

7. To recognize revenues under the amended and restated services agreement between InfuSystem and I-Flow Corporation related to billing and collection services for the year ended December 31, 2005 and for the nine months ended September 30, 2006.
8. To record amortization of financing costs over four years (life of promissory note) (included in interest expense) and physician relationship costs (included in operating costs) over twenty years, respectively.
9. To reflect payment of facility fee representing 2.50% of original amount I Flow promissory note recorded as financing cost and amortized over four years.
10. To amortize prepaid expense for \$75 annual administrative fee payable on January 1 to I Flow.
11. To eliminate nonrecurring stock based compensation charges of \$18,574 recorded by HAPC for the nine months ended September 30, 2006 and \$25 for the year ended December 31, 2005, and to reduce additional paid in capital by the remaining unearned stock compensation of \$2,887. These charges are directly related to the transaction and are contingent upon the closing of the acquisition. The related stock compensation would be worthless in the event the acquisition is not consummated.
12. To reflect the release of funds raised by HAPC's initial public offering which are currently held in trust at JP Morgan Chase Bank.
13. To eliminate interest income from trust funds held at JP Morgan Chase Bank assuming closing on January 1, 2005.
14. To reclassify the common stock subject to possible conversion assuming no share redemptions as permanent equity.

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**DIRECTORS AND MANAGEMENT OF HAPC, INC. FOLLOWING THE ACQUISITION OF INFUSYSTEM, INC.**

As of the completion of the acquisition, it is anticipated that Steven E. Watkins, chief executive officer of InfuSystem, will replace John Voris as chief executive officer of HAPC pursuant to the terms of an employment agreement under negotiation between HAPC and Mr. Watkins. Mr. Watkins will also become a member of HAPC’s Board of Directors. Mr. Voris will remain on the HAPC Board of Directors as a non-executive director. At the time the acquisition is completed, HAPC intends 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 HAPC in capacities similar to their roles with respect to InfuSystem.

Set forth below are the current members of the Board of Directors and officers of HAPC.

Name	Age	Position
John Voris	59	Chief Executive Officer and Director
Sean McDevitt	42	Chairman of the Board
Pat LaVecchia	40	Secretary and Director
Jean-Pierre Millon	56	Director
Wayne Yetter	61	Director
Erin Enright	45	Vice President, Chief Financial Officer and Treasurer

**John Voris** has served as HAPC’s Chief Executive Officer and Director since September 2005. From August 2004 to July 2005, Mr. Voris was Chairman of Epocrates, Inc., a software company providing clinical information to healthcare professionals at the point of care. Mr. Voris retired from his position at Epocrates in July 2005 and did not accept another position until becoming HAPC’s Chief Executive Officer and Director in September 2005. He was President and CEO of Epocrates from June 2000 until July 2004. Prior to Epocrates, Mr. Voris was Executive Vice President of PCS Health Systems from 1995 until 2000. During his tenure at PCS Health Systems, PCS Health Systems was a subsidiary of Eli Lilly from 1994 until 1999 and then of Rite Aid Pharmacies from 1999 until 2000. While at PCS, Mr. Voris had responsibility for all call centers, mail order pharmacies, sales and marketing of PBM services, product development and industry relations. Prior to PCS, Mr. Voris was with Eli Lilly from 1973 until 1995. Mr. Voris was Executive Director of the Infectious Disease Business Unit from 1993 until 1995, where he was responsible for world wide sales and marketing of a large portfolio of existing and development-stage anti-infectives. From 1988 until 1992, Mr. Voris was based in London as Director of Marketing for Europe, Middle East, and Africa, where he had responsibility for sales, marketing, and product development for the entire portfolio of Lilly pharmaceutical products. Prior to these positions, he held a variety of positions in sales, marketing, market research and business development. Mr. Voris received his M.B.A. and B.S. from the Kelley School of Business, Indiana University. Mr. Voris currently serves on the Board of Directors of Oscient Pharmaceuticals, Inc. (NASDAQ: OSCI), Epocrates, Inc., Gentiae Clinical Research, Inc. and Regenesis Biomedical.

**Sean McDevitt** has served as HAPC’s Chairman of the Board since August 2005. He is currently a Managing Director at FTN Midwest Securities Corp. In 1999, Mr. McDevitt co-founded Alterity Partners, a boutique investment bank which provided capital markets and merger and acquisition advisory services to high growth companies. Alterity Partners was acquired by FTN Midwest Securities Corp. in September 2004. Mr. McDevitt was formerly a senior investment banker at Goldman Sachs & Company, from 1995 through 1999 where he led deal teams in a variety of technology and healthcare/biopharmaceutical transactions, including mergers and acquisitions, divestitures and initial public offerings. Prior to Goldman Sachs & Company, Mr. McDevitt worked in sales and marketing at Pfizer Inc. from 1991 until 1994. He was a Captain in the U.S. Army Rangers and was decorated for combat in the Panama invasion. He is a member of the Council on Foreign Relations. Mr. McDevitt received his B.S. in Computer Science and Electrical Engineering from the U.S. Military Academy at West Point and an M.B.A. from Harvard Business School.

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**Pat LaVecchia** has served as HAPC's Secretary and Director since August 2005. He has been a Managing Director at FTN Midwest Securities Corp. since April 2005. Mr. LaVecchia has built and run several major Wall Street private placement groups and has extensive expertise in capital markets including raising capital for private companies and PIPEs. Mr. LaVecchia has also played the leading role in numerous mergers, acquisitions, private placements, high yield transactions, and initial public offerings. Most recently, Mr. LaVecchia was a co-founder and Managing Partner of Viant Group and a Managing Director of Viant Capital, formerly named Neveric Capital, from 2003 through 2005. Prior to forming Viant Group, Mr. LaVecchia ran several groups at major Wall Street firms including: Managing Director and Head of the Private Equity Placement Group at Bear, Stearns & Company (1994 to 1997); Group Head of Global Private Corporate Equity Placements at Credit Suisse First Boston (1997 to 2000) and Managing Director and Group Head of the Private Finance and Sponsors Group at Legg Mason Wood Walker, Inc (2001 to 2003). He was also at Hawk Holdings, a strategic venture capital firm from 2000 until 2001. Mr. LaVecchia received his B.A., magna cum laude, from Clark University and an M.B.A. from The Wharton School of the University of Pennsylvania with a major in Finance and a concentration in Strategic Planning.

**Jean-Pierre Millon** has served as a Director since September 2005. Mr. Millon is a co-founder of BLS, LLC, a consulting and investing entity based in Indianapolis and established in 2002. Mr. Millon served as a consultant to AdvancePCS, successor entity to PCS Health Systems, from October 2000 to June 2002. Until September 2000, Mr. Millon was President and Chief Executive Officer of PCS Health Systems, one of the country's largest pharmacy benefit managers. Prior to joining PCS in 1995, Mr. Millon was an executive with Eli Lilly and Co., PCS's former parent company. His career with Lilly, started in 1976, spanned two decades and was highlighted by leadership positions in the United States, the Orient, Europe, and the Caribbean Basin. Most recently, Mr. Millon served as President and General Manager of Lilly Japan, K.K. and Vice President of the Lilly pharmaceutical division in Kobe, Japan from 1992 until 1995. Mr. Millon was an advisory board member with Care Capital LLC, a healthcare venture fund from 2001 through 2003. Mr. Millon also serves on the Board of Directors of Caremark Rx, Inc. (NYSE: CMX), Cypress Bioscience, Inc. (NASDAQ: CYPB), Prometheus Laboratories Inc. and Medical Present Value, Inc.

**Wayne Yetter** has served as a Director since September 2005. Mr. Yetter has served as Chief Executive Officer of Verispan, LLC, a healthcare information company founded by Quintiles Transnational Corp. and McKesson Corp, since September 2005. From November 2004 through September 2005, Mr. Yetter served as President and Chief Executive Officer of Odyssey Pharmaceuticals, Inc. to assist Odyssey's parent, PLIVA d.d., implement its strategy to exit the proprietary pharmaceutical business. Mr. Yetter has built and led a variety of multi-million dollar businesses and pharmaceutical operations for some of the largest companies in the world. After serving in Vietnam, Mr. Yetter began his career in the pharmaceuticals industry in 1970 as a sales representative for Pfizer. From Pfizer, he joined Merck & Co in 1977, where he led the Marketing Operations Group and then became President of the Asia Pacific region before starting the new company, Astra Merck, in 1991 as President and CEO. Under his leadership, Astra Merck's product, Prilosec, grew to be the #1 pharmaceutical product in the U.S. at the time. Mr. Yetter then joined Novartis Pharmaceuticals in 1997, where he was President and CEO of the U.S. pharmaceutical business. In 1999, he joined IMS and later led its spinout company, Synavant, where he was Chairman and CEO for three years before Synavant merged with Dendrite International in 2003. Following the merger, Mr. Yetter founded and has acted as principal of BioPharm Advisory LLC since September 2003. He also served as an advisor to Alterity Partners from 2003 until 2004. Mr. Yetter was formerly Chairman of the Board for Transkaryotic Therapies Inc., which was acquired by Shire Pharmaceuticals in 2005. He also serves on the Board of Directors of Noven Pharmaceuticals, Inc. (NASDAQ: NOVN) and Matria Healthcare, Inc. (NASDAQ: MATR), EpiCept (NASDAQ: EPCT) and Alteon Inc. (AMEX: ALT).

**Erin Enright** has served as HAPC's Vice President and Chief Financial Officer since October 2005. Since 2004, Ms. Enright has been Chief Executive Officer of Lee Medical, a medical products company providing bone marrow transplant/harvest needles to approximately 300 leading hospitals and physicians in the U.S. Ms. Enright was previously at Citigroup from 1993 through 2003, most recently as a Managing Director, where she worked



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as a senior banker in the equity capital markets group responsible for identifying, structuring, marketing, pricing and allocating equity offerings for corporate clients in the healthcare, technology and general industrial fields. Ms. Enright was also Chairperson of Citigroup's Institutional Investors Committee, responsible for screening and approving the firm's participation in equity underwritings and a member of the Citigroup Global Equity Commitment Committee, responsible for reviewing and approving the firm's underwritings. Prior to Citigroup, Ms. Enright was an attorney with Wachtell, Lipton, Rosen & Katz in the firm's New York office from 1989 until 1993. Ms. Enright received her A.B. from the Woodrow Wilson School of Public and International Affairs at Princeton University and a J.D. from the University of Chicago Law School.

Set forth below are the current officers and significant employees of InfuSystem.

Name	Age	Position
Steven E. Watkins	50	President
Stephen C. Revere	58	Controller
Janet L. Skonieczny	47	Vice President, Operations
Anthony E. Norkus	52	Vice President, Western Regional Sales
Thomas A. Bryniarski	42	Director, Regional Sales

**Steven E. Watkins** has served as the President of InfuSystem since 1998 and was one of the founders of the predecessors to InfuSystem, which were started in 1986. Prior to that time, Mr. Watkins was Vice President of Aventric Medical, Inc., a Midwest distributor of high-tech equipment such as pacemakers, cardiac imaging devices and drug delivery systems. Concurrent with the start-up of InfuSystem, Mr. Watkins was President of Medical Reimbursement Solutions, a third-party billing company that formatted and transmitted billing claims on behalf of infusion centers, physicians and hospitals.

**Stephen C. Revere** has served as the Controller of InfuSystem since 1998. Prior to this time, he was a controller for the PRN Group and a partner at the firm Revere & Greer PC. Mr. Revere is a certified public accountant.

**Janet L. Skonieczny** has served as the Vice President, Operations of InfuSystem since 1998. Prior to this time, she served as Office Manager for Aventric Medical, Inc., a Midwest distributor of high-tech equipment such as pacemakers, cardiac imaging devices and drug delivery systems.

**Anthony E. Norkus** has served as the Vice President, Western Regional Sales of InfuSystem since 1998. Prior to this time, he was the Vice President of International Sales and Vice President of Domestic Sales for I-Flow Corporation.

**Thomas A. Bryniarski** has served as Director, Regional Sales of InfuSystem since 2003. Mr. Bryniarski is responsible for all of InfuSystem's sales east of the Mississippi River. Mr. Bryniarski joined InfuSystem in 1999 as a sales representative.

**Board of Directors and Committees of the Board**

Steven E. Watkins will become a member of the HAPC Board of Directors upon consummation of the acquisition. HAPC does not currently have a Compensation Committee or Nominating and Governance Committee. HAPC's Board of Directors has established an Audit Committee to devote attention to specific subjects and to assist the Board of Directors in the discharge of its responsibilities. The function of the Audit Committee and its current members are set forth below.

**Audit Committee**

The HAPC Board of Directors has established an Audit Committee, which reports to the Board of Directors. The Audit Committee is responsible for meeting with HAPC's independent registered accounting firm regarding,

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among other issues, audits and adequacy of HAPC's accounting and control systems. In addition, the Audit Committee monitors compliance on a quarterly basis with the terms of HAPC's initial public offering consummated on April 18, 2006. If any noncompliance is identified, the Audit Committee has the responsibility to take immediately all action necessary to rectify such noncompliance or otherwise cause compliance with the terms of HAPC's initial public offering. The Audit Committee is composed entirely of independent directors. The following individuals are members of HAPC's Audit Committee: Jean-Pierre Millon and Wayne Yetter. Due to the affiliation of Messrs. McDevitt and LaVecchia with FTN Midwest Securities Corp., to the extent FTN Midwest Securities is acting as HAPC's advisor in connection with a business combination, the Audit Committee will have the sole authority to negotiate and approve the terms of such business combination, subject to the stockholder approval rights. No member of HAPC's Audit Committee is an audit committee financial expert as that term is defined under Item 401 of Regulation S-K of the Exchange Act, but nonetheless, HAPC believes the members are qualified to perform their duties.

**Code of Conduct and Ethics**

HAPC has adopted a code of conduct and ethics applicable to its directors, officers and employees in accordance with applicable federal securities laws.

**Executive Officer and Director Compensation**

Each of HAPC's officers and directors, other than Sean McDevitt and Pat LaVecchia, has received shares of HAPC common stock as a condition of their accepting their positions with HAPC in September/October 2005. John Voris received 666,667 shares, Wayne Yetter received 416,667 shares, Jean-Pierre Millon received 416,667 shares and Erin Enright received 250,000 shares. These shares are subject to forfeiture, in whole or in part, if the individual ceases to be an officer/director prior to certain specified dates through December 31, 2007. HAPC has agreed to reimburse these initial stockholders for any tax liability they may incur in connection with their receipt of shares of HAPC common stock. In addition, 2,416,666 shares of common stock are held as reserved treasury shares that may be transferred by the Board of Directors to officers, directors or employees; provided that no reserved treasury shares may be transferred to FTN Midwest Securities Corp. or any of its affiliates prior to the later of six months after the consummation of a business combination or April 11, 2007. The shares of common stock held by the initial stockholders are (and any of the reserved treasury shares that are transferred will be) subject to lock-up agreements restricting their sale until six months after a business combination is completed. These lock-up agreements cannot be waived.

After the consummation of HAPC's initial public offering on April 18, 2006, HAPC's chief executive officer, chief financial officer and each of HAPC's independent directors will receive annual compensation of \$50,000. Mr. Voris, HAPC's chief executive officer and a director, will receive an additional \$50,000 annual retainer for his services as a director. HAPC's officers and directors receive reimbursement for any out-of-pocket expenses incurred in connection with activities on its behalf such as identifying potential target businesses and performing due diligence on suitable business combinations. There is no limit on the amount of these out-of-pocket expenses and there is no review of the reasonableness of the expenses by anyone other than HAPC's Board of Directors, which includes persons who may seek reimbursement, or a court of competent jurisdiction if such reimbursement is challenged; provided that no proceeds held in the trust account are used to reimburse out-of-pocket expenses prior to a business combination. If all of HAPC's directors are not deemed independent, HAPC will not have the benefit of independent directors examining the propriety of expenses incurred on its behalf and subject to reimbursement, or monitoring HAPC's compliance with the terms of HAPC's initial public offering. In addition, since the role of HAPC's current management and directors subsequent to a business combination is uncertain, HAPC has no ability to determine what remuneration, if any, will be paid to its current management and directors after a business combination by any target businesses.

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**Employment Agreements**

HAPC and Steve E. Watkins, chief executive officer of InfuSystem, are presently negotiating the terms of an employment agreement pursuant to which Mr. Watkins will replace John Voris as chief executive officer of HAPC upon completion of the acquisition. Set forth below are certain terms of the employment agreement:

Mr. Watkins' employment as chief executive officer of HAPC will be at will.

Mr. Watkins will receive a base annual salary of \$300,000. He will also be entitled to an annual bonus of up to \$150,000 in the event that certain performance goals, pre-established by HAPC, are met.

Provided that the HAPC, INC. 2006 Stock Incentive Plan (the "Plan") is approved by the HAPC stockholders at the special meeting, Mr. Watkins will receive a grant of 200,000 shares of HAPC common stock under the Plan, 25% of which will vest on the date of grant and 25% of such total shares will vest on each of the next three anniversaries of the grant date through which Mr. Watkins remains employed by HAPC. HAPC will also grant Mr. Watkins an option to purchase 300,000 shares of HAPC common stock at an exercise price equal to the fair market value of the underlying common stock on the date of grant. The stock option will vest in four equal installments on each anniversary of the grant date through which Mr. Watkins remains employed by HAPC.

In the event that Mr. Watkins' employment with HAPC is terminated by Mr. Watkins, by HAPC for cause or by HAPC upon Mr. Watkins' death or disability, Mr. Watkins (or his estate) will be entitled to receive all annual base salary, vacation, benefits and other compensation accrued as of the date of termination, including any bonus award earned during the immediately preceding calendar year but not yet paid as of the date of termination.

From the date Mr. Watkins commences his employment with HAPC until two years after the termination of his employment with HAPC, Mr. Watkins will not directly or indirectly, compete with the business of HAPC or solicit the services of any individuals employed by HAPC, nor will he disclose any confidential information obtained by him during the course of his employment with HAPC to a third party without the prior written consent of HAPC.

As the employment agreement between HAPC and Mr. Watkins remains under negotiation, its terms have not been finalized and remain subject to change.

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**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Sean McDevitt, the chairman of HAPC's Board of Directors, and Pat LaVecchia, HAPC's Secretary and a member of HAPC's Board of Directors, are each managing directors of FTN Midwest Securities Corp., the underwriter of HAPC's initial public offering and advisor in connection with the acquisition.

HAPC has entered into an agreement with FTN Midwest Securities Corp. under the terms of which FTN Midwest Securities Corp. will make available to HAPC certain administrative, technology and secretarial services, as well as the use of certain limited office space, including a conference room, in the New York area as may be required by HAPC from time to time, situated at 350 Madison Avenue, 20th Floor, New York, New York, or any successor location. Such services will be of the same quality and condition as made available by FTN Midwest Securities Corp. to itself, provided that no disruption of FTN Midwest Securities Corp.'s day-to-day business will result from the provision of the services. In exchange therefor, HAPC will pay FTN Midwest Securities Corp. the sum of \$1 per year.

HAPC has entered into agreements with FTN Midwest Securities Corp. and Sean McDevitt and Pat LaVecchia, under the terms of which each of them has agreed to present to HAPC for its consideration 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 to HAPC any opportunity involving a business in the healthcare, or a healthcare-related, sector seeking a strategic combination with another operating business in the healthcare, or a healthcare-related, sector. The opportunity to consider the acquisition of InfuSystem was presented to HAPC by FTN Midwest Securities Corp. pursuant to this agreement.

HAPC has sold to FTN Midwest Securities Corp., for \$100, an option to purchase up to a total of 833,333 units comprised of one share of common stock and two warrants. The units issuable upon exercise of the option are identical to those offered in HAPC's initial public offering except that the warrants included in the option units have an exercise price of \$6.25 (125% of the exercise price of the warrants included in the units sold in the initial public offering). This option is exercisable at \$7.50 per unit commencing on the later of the consummation of a business combination and April 11, 2007.

None of HAPC's officers and directors are required to commit their full time to its affairs and, accordingly, they may have conflicts of interest in allocating management time among various business activities.

In the course of their other business activities, HAPC's officers and directors may become aware of investment and business opportunities which may be appropriate for presentation to HAPC as well as the other entities with which they are affiliated. For a complete description of HAPC's management's other affiliations, see Directors and Management of HAPC, INC. Following the Acquisition of InfuSystem, Inc.

HAPC's officers and directors may in the future become affiliated with entities, including other blank check companies, engaged in business activities similar to those intended to be conducted by HAPC.

HAPC's officers and directors (other than Messrs. McDevitt and LaVecchia) own shares of HAPC common stock, which are subject to forfeiture provisions and which are subject to lock-up agreements restricting their sale until six months after a business combination is successfully completed. The shares owned by HAPC's directors and officers will be worthless if HAPC does not consummate a business combination. Therefore, HAPC's management may have a conflict of interest in determining whether a particular target business is appropriate to effect a business combination. The personal and financial interests of HAPC's directors and officers may influence their motivation in identifying and selecting target businesses and completing a business combination in a timely manner.

Messrs. McDevitt and LaVecchia have, collectively, committed to purchase \$1,000,000 of warrants in the market at prevailing market prices or from HAPC at a price of \$0.70 per warrant, subsequent to the preliminary filing of this proxy statement with the SEC.

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HAPC's Board of Directors, with Messrs. McDevitt and LaVecchia not participating, have determined to grant to them 2,000,000 and 416,666 shares, respectively, of HAPC common stock. These shares will not be transferred until six months after the completion of a business combination or, if later, April 11, 2007.

HAPC's officers and directors may have a conflict of interest with respect to evaluating a particular business combination if the retention or resignation of any such officers and directors were included by a target business as a condition to any agreement with respect to a business combination.

In general, officers and directors of a corporation incorporated under the laws of the State of Delaware are required to present business opportunities to the corporation if:

the corporation could financially undertake the opportunity;

the opportunity is within the corporation's line of business; and

it would not be fair to the corporation and its stockholders for the opportunity not to be brought to the attention of the corporation. Accordingly, as a result of multiple business affiliations, HAPC's officers and directors may have similar legal obligations relating to presenting business opportunities meeting the above-listed criteria to other entities. In addition, conflicts of interest may arise when the HAPC Board of Directors evaluates a particular business opportunity with respect to the above-listed criteria. HAPC cannot assure you that any of the above mentioned conflicts will be resolved in its favor.

**Table of Contents****BENEFICIAL OWNERSHIP OF SECURITIES**

The following table sets forth information regarding the beneficial ownership of the common stock of HAPC as of December 4, 2006 which amount includes shares of common stock which may be acquired by such persons within 60 days of the Record Date by:

each person known by HAPC to be the beneficial owner of more than 5% of its outstanding shares of common stock based solely upon the amounts and percentages as are contained in the public filings of such persons;

each of HAPC's officers and directors; and

all of HAPC's officers and directors as a group.

Unless otherwise indicated, HAPC believes that all persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned by them.

<b>Name of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percentage of Outstanding Common Stock *</b>
Wellington Management Company, LLP (1)	2,333,333	12.5%
Fidelity Management & Research Company (2)	2,619,000	14.1%
Fir Tree, L.L.C. (3)	1,822,500	9.8%
Sapling, LLC (4)	2,062,500	11.1%
Fir Tree Recovery Master Fund, L.P. (5)	2,062,500	11.1%
Context Capital Management, LLC (6)	1,825,250	9.8%
Michael Rosen (7)	1,825,250	9.8%
William D. Fertig (8)	1,825,250	9.8%
Context Convertible Arbitrage Offshore Ltd. (9)	1,270,550	6.8%
Sean McDevitt	0	0%
Pat LaVecchia	0	0%
John Voris (10) (14)	666,667	3.6%
Wayne Yetter (11) (14)	416,667	2.2%
Jean-Pierre Millon (12) (14)	416,667	2.2%
Erin Enright (13) (14)	250,000	1.3%
All directors and officers as a group (4 individuals)	1,750,001	9.4%

\* Based on 18,625,252 shares of common stock issued and outstanding as of December 4, 2006.

- (1) Derived from a Schedule 13G filed on July 10, 2006 by Wellington Management Company, LLP. Wellington Management Company, LLP, in its capacity as an investment advisor, may be deemed to beneficially own 2,333,333 shares of common stock which are held of record by clients of Wellington Management Company, LLP. The address of Wellington Management Company, LLP is 75 State Street, Boston, Massachusetts 02109. Wellington Management Company, LLP has shared voting power over 1,331,276 shares of common stock and shared investment power over 2,333,333 shares of common stock. Robert J. Toner is the president of Wellington Management Company, LLP.
- (2) Derived from Schedule 13G filed on May 10, 2006 by FMR Corp. Fidelity Management & Research Company, an investment advisor and wholly owned subsidiary of FMR Corp., may be deemed to beneficially own 2,619,000 shares of common stock in its capacity as investment advisor to various investment companies. The address of Fidelity Management & Research Company is 82 Devonshire Street, Boston, Massachusetts 02109. FMR Corp. is the parent of Fidelity Management & Research Company. Edward C. Johnson, the chairman of FMR Corp., and FMR Corp. exercise investment control over the 2,619,000 shares of common stock beneficially owned by Fidelity Management & Research Company. The Board of Directors of Fidelity Investments exercises voting control over the 2,619,000 shares of common stock beneficially owned by Fidelity Management & Research Company.
- (3) Derived from Form 3 filed on May 11, 2006 by Fir Tree, L.L.C., Fir Tree, Inc., Camellia Partners, LLC, Jeffrey Tannenbaum and Andrew Fredman. Fir Tree, L.L.C., Fir Tree Inc., Camellia Partners, LLC, Jeffrey



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- Tannenbaum and Andrew Fredman are the beneficial owners of 1,822,500 shares of common stock. The business address of Fir Tree, L.L.C., Fir Tree, Inc., Camellia Partners, LLC, Jeffrey Tannenbaum and Andrew Fredman is 535 Fifth Avenue, 35th Floor, New York, New York 10017. Jeffrey Tannenbaum is a principal of Fir Tree, L.L.C., Fir Tree, Inc. and Camellia Partners, LLC, and Andrew Fredman is a principal of Camellia Partners, LLC.
- (4) Derived from Schedule 13G filed on April 28, 2006 by Sapling, LLC and Fir Tree Recovery Master Fund, L.P. The business address of Sapling, LLC and Fir Tree Recovery Master Fund, L.P. is 535 Fifth Avenue, 35th Floor, New York, New York 10017. Sapling, LLC is the beneficial owner of, and exercises voting control and investment control over, 1,461,075 shares of common stock. Fir Tree Recovery Master Fund, L.P. is the beneficial owner of, and exercises voting and investment control over, 601,425 shares of common stock. Fir Tree, Inc. is the investment manager of Sapling, LLC and Fir Tree Recovery Master Fund, L.P. Jeffrey Tannenbaum is the president of Fir Tree, Inc.
- (5) Derived from Schedule 13G filed on April 28, 2006 by Sapling, LLC and Fir Tree Recovery Master Fund, L.P. The business address of Sapling, LLC and Fir Tree Recovery Master Fund, L.P. is 535 Fifth Avenue, 35th Floor, New York, New York 10017. Sapling, LLC is the beneficial owner of, and exercises voting control and investment control over, 1,461,075 shares of common stock. Fir Tree Recovery Master Fund, L.P. is the beneficial owner of, and exercises voting and investment control over, 601,425 shares of common stock. Fir Tree, Inc. is the investment manager of Sapling, LLC and Fir Tree Recovery Master Fund, L.P. Jeffrey Tannenbaum is the president of Fir Tree, Inc.
- (6) Derived from Schedule 13G filed on April 20, 2006 by Context Capital Management, LLC, Michael S. Rosen, William D. Fertig and Context Convertible Arbitrage Offshore Fund, Ltd. The business address of Context Capital Management, LLC, Michael S. Rosen and William D. Fertig is 12626 High Bluff Drive, Suite 440, San Diego, California 92130. Context Capital Management, LLC, Michael S. Rosen and William D. Fertig exercise voting control and investment control over 1,825,250 shares of common stock. Michael S. Rosen is the co-chairman, chief executive officer and manger of Context Capital Management, LLC and William D. Fertig is co-chairman, chief investment officer and manager of Context Capital Management, LLC.
- (7) Derived from Schedule 13G filed on April 20, 2006 by Context Capital Management, LLC, Michael S. Rosen, William D. Fertig and Context Convertible Arbitrage Offshore Fund, Ltd. The business address of Context Capital Management, LLC, Michael S. Rosen and William D. Fertig is 12626 High Bluff Drive, Suite 440, San Diego, California 92130. Context Capital Management, LLC, Michael S. Rosen and William D. Fertig are the beneficial owners of, exercise voting control and investment control over, 1,825,250 shares of common stock. Michael S. Rosen is the co-chairman is the chief executive officer and manger of Context Capital Management, LLC and William D. Fertig is the co-chairman, chief investment officer and manager of Context Capital Management, LLC.
- (8) Derived from Schedule 13G filed on April 20, 2006 by Context Capital Management, LLC, Michael S. Rosen, William D. Fertig and Context Convertible Arbitrage Offshore Fund, Ltd. The business address of Context Capital Management, LLC, Michael S. Rosen and William D. Fertig is 12626 High Bluff Drive, Suite 440, San Diego, California 92130. Context Capital Management, LLC, Michael S. Rosen and William D. Fertig exercise voting control and investment control over 1,825,250 shares of common stock. Michael S. Rosen is the co-chairman, chief executive officer and manger of Context Capital Management, LLC and William D. Fertig is the co-chairman, chief investment officer and manager of Context Capital Management, LLC.
- (9) Derived from Schedule 13G filed on April 20, 2006 by Context Convertible Arbitrage Offshore Fund, Ltd. The address of Context Convertible Arbitrage Offshore Ltd. is c/o Hedgeworks Fund Services Limited, P.O. Box 309GT, Uglan House, South Church Street, George Town, Grand Cayman, Cayman Islands. Context Convertible Arbitrage Offshore Fund, Ltd. exercises voting control and investment control over 1,270,550 shares of common stock. Context Capital Management, LLC is the investment advisor of Context Convertible Arbitrage Offshore Fund, Ltd. Michael S. Rosen is the co-chairman, chief executive officer and manager of Context Capital Management, LLC and William D. Fertig is the co-chairman, chief investment officer and manager of Context Capital Management, LLC.



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- (10) The business address of this individual is c/o HAPC, INC., 350 Madison Avenue, 20th Floor, New York, New York 10017.
- (11) The business address of this individual is c/o HAPC, INC., 350 Madison Avenue, 20th Floor, New York, New York 10017.
- (12) The business address of this individual is c/o HAPC, INC., 350 Madison Avenue, 20th Floor, New York, New York 10017.
- (13) The business address of this individual is c/o HAPC, INC., 350 Madison Avenue, 20th Floor, New York, New York 10017.
- (14) Each individual has agreed that if he or she ceases to be an officer or director of HAPC prior to the dates specified below (other than as a result of (i) disability, as determined by the HAPC Board of Directors or as certified by a physician in a letter to the HAPC Board of Directors, (ii) death, (iii) removal without cause, or (iv) resignation for good reason), the portion of the shares specified below will be forfeited and transferred back to HAPC:

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

All of the common stock issued to these individuals will vest upon completion of the acquisition of InfuSystem.

**Table of Contents****PRICE RANGE OF SECURITIES AND DIVIDENDS****HAPC**

The shares of HAPC common stock, warrants and units are currently quoted on the OTC Bulletin Board under the symbols HAPN.OB, HAPNW.OB and HAPNU.OB, respectively. The closing prices per share of common stock and warrants of HAPC on September 28, 2006, the last trading day before the announcement of the execution of the Stock Purchase Agreement, were \$5.47 and \$0.33, respectively. The closing price per unit on September 26, 2006, the last date the units were traded prior to the execution of the Stock Purchase Agreement, was \$6.15.

Each unit of HAPC consists of one share of HAPC common stock and two warrants. HAPC warrants became separable from HAPC common stock on June 15, 2006. Each warrant entitles the holder to purchase from HAPC one share of common stock at an exercise price of \$5.00 commencing on the later of the completion of the InFuSystem acquisition (or if the InFuSystem transaction is not consummated, the first acquisition which is consummated) or April 10, 2007. The HAPC warrants will expire at 5:00 p.m., New York City time, on April 11, 2011, or earlier upon redemption. Prior to June 15, 2006, there was no established public trading market for HAPC's common stock.

HAPC does not currently have any authorized or outstanding equity compensation plans.

The following table sets forth, for the period indicated, the quarterly high and low bid prices of HAPC's units, common stock and warrants as reported on the OTC Bulletin Board since the units commenced public trading on April 12, 2006 and since such common stock and warrants commenced public trading on June 15, 2006.

	Common Stock <sup>1</sup>		Warrants		Units <sup>2</sup>	
	High	Low	High	Low	High	Low
Period from April 12, 2006 to June 15, 2006					\$ 6.25	\$ 5.90
Period from June 15, 2006 to September 30, 2006	\$ 5.50	\$ 5.35	\$ 0.31	\$ 0.27	\$ 6.08	\$ 5.90
Period from October 1, 2006 to November 30, 2006	\$ 5.55	\$ 5.45	\$ 0.32	\$ 0.16	\$ 6.15	\$ 5.76

<sup>1</sup> HAPC common stock and warrants commenced trading on the OTC Bulletin Board on June 15, 2006.

<sup>2</sup> HAPC units commenced trading on the OTC Bulletin Board on April 12, 2006.

**Holders**

As of the Record Date, there was \_\_\_\_\_ holder(s) of record of the units, \_\_\_\_\_ holders of record of the common stock and \_\_\_\_\_ holder of record of the warrants.

**Dividends**

HAPC has not paid any dividends on its common stock to date and does not intend to pay dividends prior to the completion of a business combination. The payment of dividends in the future will be contingent upon its revenue and earnings, if any, capital requirements and general financial condition subsequent to completion of a business combination. The payment of any dividends subsequent to a business combination will be within the discretion of HAPC's then Board of Directors. It is the present intention of the HAPC Board of Directors to retain all earnings, if any, for use in HAPC's business operations and, accordingly, the HAPC Board does not anticipate declaring any dividends in the foreseeable future.

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**InfuSystem, Inc.**

There is no established public trading market for the shares of capital stock of InfuSystem. All of the issued and outstanding capital stock of InfuSystem is held by I-Flow. Upon consummation of the acquisition, all of the issued and outstanding capital stock of InfuSystem will be held by HAPC.

**Dividends Upon Completion of the Acquisition**

Upon completion of the acquisition of InfuSystem, HAPC does not intend to pay any dividends on its shares of common stock. Rather, HAPC intends to reinvest any earnings back into the combined company. At this time, HAPC anticipates that it will retain any earnings and will not pay dividends in the foreseeable future. It is expected that the terms of the promissory note to be issued to I-Flow at the closing of the acquisition will restrict HAPC's payment of dividends.

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**DESCRIPTION OF SECURITIES**

**General**

HAPC is currently authorized to issue 200,000,000 shares of common stock, par value \$0.0001 per share, and 1,000,000 shares of preferred stock, par value \$0.0001. As of the Record Date,                      shares of common stock are outstanding, held by                      record holders. No shares of preferred stock are currently outstanding.

**Units**

Each unit consists of one share of common stock and two warrants. The warrants started trading separately from the common stock on June 15, 2006. Each warrant entitles the holder to purchase one share of common stock at an exercise price of \$5.00 per share.

**Common stock**

HAPC's stockholders are entitled to one vote for each share held of record on all matters to be voted on by stockholders. In connection with the vote required for any business combination, all of HAPC's existing stockholders, including all of its officers and directors, have agreed to vote their respective shares of common stock owned by them immediately prior to HAPC's initial public offering in accordance with the majority of the votes cast by the public stockholders. This voting arrangement shall not apply to shares included in units purchased in HAPC's initial public offering or purchased following the offering in the open market by any of HAPC's initial stockholders, officers and directors. Additionally, HAPC's initial stockholders, officers and directors will vote all of their shares in any manner they determine, in their sole discretion, with respect to any other items that come before a vote of HAPC's stockholders.

HAPC will proceed with a business combination only if: (i) a majority of the shares of common stock voted by the holders of the common stock issued in HAPC's initial public offering that are present in person or by proxy and entitled to vote are voted in favor of the business combination and (ii) public stockholders owning less than 20% of the shares sold in HAPC's initial public offering exercise their conversion rights discussed below.

If HAPC is forced to liquidate prior to a business combination, holders of HAPC's shares of common stock purchased in its initial public offering are entitled to share ratably in the trust fund, inclusive of any interest, and any net assets remaining available for distribution to them after payment of liabilities. HAPC's initial stockholders have agreed to waive their rights to share in any distribution with respect to common stock owned by them prior to the initial public offering if HAPC is forced to liquidate.

HAPC's stockholders have no conversion, preemptive or other subscription rights and there are no sinking fund or redemption provisions applicable to the common stock, except that public stockholders have the right to have their shares of common stock converted to cash equal to their pro rata share of the trust fund if they vote against the business combination and the business combination is approved and completed. Public stockholders who convert their stock into their share of the trust fund still have the right to exercise the warrants that they received as part of the units.

Holders of 1,750,001 shares of common stock that were outstanding prior to HAPC's initial public offering are entitled to registration rights. The holders of the majority of these shares are entitled to make up to two demands that HAPC register the resale of these shares. The holders of the majority of these shares can elect to exercise these registration rights at any time six months after the consummation of HAPC's initial business combination. In addition, these stockholders have certain piggy-back registration rights on registration statements filed subsequent to the date on which these shares of common stock are released from escrow. HAPC will bear the expenses incurred in connection with the filing of any such registration statements.

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### **Preferred Stock**

HAPC's amended and restated certificate of incorporation authorizes the issuance of 1,000,000 shares of blank check preferred stock with such designation, rights and preferences as may be determined from time to time by HAPC's Board of Directors. Accordingly, HAPC's Board of Directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights which could adversely affect the voting power or other rights of the holders of common stock, although the underwriting agreement prohibits HAPC, prior to a business combination, from issuing preferred stock which participates in any manner in the proceeds of the trust fund, or which votes as a class with the common stock on a business combination. HAPC may issue some or all of the preferred stock to effect a business combination, although HAPC will not issue any preferred stock in the acquisition of InfuSystem. In addition, the preferred stock could be utilized as a method of discouraging, delaying or preventing a change in control of HAPC. Although HAPC does not currently intend to issue any shares of preferred stock, HAPC cannot assure you that it will not do so in the future.

### **Warrants**

HAPC currently has warrants outstanding to purchase 33,333,334 shares of HAPC common stock. Each warrant entitles the registered holder to purchase one share of HAPC's common stock at a price of \$5.00 per share, subject to adjustment as discussed below, at any time commencing on the later of:

the completion of a business combination; or

April 11, 2007.

The HAPC warrants will expire at 5:00 p.m., New York City time, on April 11, 2011, or earlier upon redemption. HAPC 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 holders of the warrants.

The warrants are issued in registered form under a warrant agreement between Mellon Investor Services LLC, as warrant agent, and HAPC.

The exercise price and number of shares of common stock issuable on exercise of the warrants may be adjusted in certain circumstances including in the event of a stock dividend, or HAPC's recapitalization, reorganization, acquisition or consolidation. However, the warrants will not be adjusted for issuances of common stock at a price below their respective exercise prices.

The warrants may be exercised upon surrender of the warrant certificate on or prior to the expiration date at the offices of the warrant agent, with the exercise form on the reverse side of the warrant certificate completed and executed as indicated, accompanied by full payment of the exercise price, by certified check payable to HAPC, for the number of warrants being exercised. The warrant holders do not have the rights or privileges of holders of common stock or any voting rights until they exercise their warrants and receive shares of common stock. After the issuance of shares of common stock upon exercise of the warrants, each holder will be entitled to one vote for each share held of record on all matters to be voted on by stockholders.

No fractional shares will be issued upon exercise of the warrants. If, upon exercise of the warrants, a holder would be entitled to receive a fractional interest in a share, HAPC will, upon exercise, round up to the nearest whole number the number of shares of common stock to be issued to the warrant holder.

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**Unit Purchase Option**

In connection with its initial public offering, HAPC issued to FTN Midwest Securities Corp., the underwriter in the initial public offering, 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 initial public offering, except that each of the warrants underlying this option entitles the holder to purchase one share of HAPC's 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 April 11, 2007 and expiring April 11, 2011. The option may only be exercised or converted by the option holder.

**Transfer Agent and Warrant Agent**

The transfer agent for HAPC's securities and warrant agent for HAPC's warrants is Mellon Investor Services LLC, 480 Washington Blvd., Jersey City, New Jersey, 07310.

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**STOCKHOLDER PROPOSALS**

Regardless of whether the acquisition of InfuSystem is consummated, the HAPC 2006 annual meeting of stockholders will be held on or about \_\_\_\_\_, 2006, unless the date is changed by the Board of Directors. If you are a stockholder and you want to include a proposal in the proxy statement for the 2006 annual meeting, you need to provide it to HAPC by no later than \_\_\_\_\_, 2006.

**DELIVERY OF DOCUMENTS TO STOCKHOLDERS SHARING AN ADDRESS**

Only one copy of this proxy statement is delivered to two or more stockholders who share an address unless HAPC or its agent has received contrary instructions from one or more of the stockholders. To request that separate copies of these documents be delivered, stockholders can contact HAPC's transfer agent by mail at: Mellon Investor Services LLC, 480 Washington Blvd., Jersey City, New Jersey, 07310. You may also contact HAPC transfer agent if you received multiple copies of the proxy statement and would prefer to receive a single copy in the future.

**WHERE YOU CAN FIND MORE INFORMATION**

HAPC files reports, proxy statements and other information with the Securities and Exchange Commission as required by the Securities Exchange Act of 1934, as amended.

You may read and copy reports, proxy statements and other information filed by HAPC with the Securities and Exchange Commission at the Securities and Exchange Commission public reference room located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330.

HAPC files its reports, proxy statements and other information electronically with the Securities and Exchange Commission. You may access information on HAPC at the Securities and Exchange Commission web site containing reports, proxy statements and other information at: <http://www.sec.gov>.

Information and statements contained in this proxy statement, or any annex to this proxy statement, are qualified in all respects by reference to the copy of the relevant contract or other annex filed as an exhibit to this proxy statement.

All information contained in this proxy statement relating to HAPC has been supplied by HAPC, and all such information relating to InfuSystem, Inc. has been supplied by InfuSystem, Inc. Information provided by either of HAPC or InfuSystem, Inc. does not constitute any representation, estimate or projection of the other.

If you would like additional copies of this proxy statement, or if you have questions about the acquisition or the financing, you should contact: Pat LaVecchia, Secretary at HAPC, Inc., 350 Madison Avenue, 20th Floor, New York, New York 10017, (212) 418-5070

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**(a corporation in the development stage)**

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**(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.

Table of Contents**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 (Audited)

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

	Common Stock		Paid-in Capital in Excess of Par	Deficit Accumulated During the Development Stage	Deferred Stock Compensation	Treasury Stock		Stockholders Total Equity
	Shares	Par Value \$0.0001 Amount				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>\$ 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 these financial statements 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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**HAPC, INC. AND SUBSIDIARY**

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

**(a corporation in the development stage)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (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.

**Cash and cash equivalents**

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

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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 (Continued)**

**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.

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



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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 (Continued)**

**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.

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**

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

**(a corporation in the development stage)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (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. 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.

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.



**Table of Contents****HAPC, INC. AND SUBSIDIARY****(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)****(a corporation in the development stage)****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****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.

**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%

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September 30, 2007	50%
December 31, 2007	25%

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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 (Continued)**

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.

**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 InfuSystem, 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



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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 (Continued)**

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.

**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.



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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 (Continued)**

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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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Director and Stockholders

HAPC, Inc. (formerly Healthcare Acquisition Partners Corp.)

We have audited the accompanying balance sheets of HAPC, Inc. (formerly Healthcare Acquisition Partners Corp.) (a corporation in the development stage) as of April 18, 2006 and December 31, 2005, and the related statements of operations, stockholders' equity (deficit) and cash flows for the periods from January 1, 2006 to April 18, 2006, August 15, 2005 (inception) to December 31, 2005 and August 15, 2005 (inception) to April 18, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HAPC, Inc. (formerly Healthcare Acquisition Partners Corp.) as of April 18, 2006 and December 31, 2005, and the results of its operations and its cash flows for the periods from January 1, 2006 to April 18, 2006, August 15, 2005 (inception) to December 31, 2005 and August 15, 2005 (inception) to April 18, 2006 in conformity with accounting principles generally accepted in the United States.

MILLER, ELLIN & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

New York, New York

November 10, 2006

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

(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)

(a corporation in the development stage)

**BALANCE SHEETS**

	April 18, 2006	December 31, 2005
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash	\$ 1,907,036	\$ 13,590
Cash held in trust account	95,000,000	
Prepaid expenses	416,700	
Other deferred offering costs		165,088
<b>Total assets</b>	<b>\$ 97,323,736</b>	<b>\$ 165,088</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b>		
<b>Current Liabilities:</b>		
Accrued expenses	\$ 620,808	\$ 93,954
Stockholder advance	100	100
Notes payable	85,000	85,000
Deferred underwriting fees	5,400,000	
<b>Total Liabilities</b>	<b>6,105,908</b>	<b>179,054</b>
<b>COMMITMENTS</b>		
Common Stock subject to conversion 3,331,667 and 0 shares, respectively, at conversion value	18,990,500	
<b>Stockholders Equity (Deficit)</b>		
Preferred stock, \$.0001 par value; authorized 1,000,000 shares; none issued and outstanding		
Common stock, \$.0001 par value; authorized 200,000,000 shares; issued 20,833,334 and 4,166,667, respectively and outstanding 18,416,668 and 1,750,001, respectively	2,083	417
Additional paid-in capital	80,668,237	8,434,588
Unearned stock compensation	(5,774,659)	(8,410,598)
Deficit accumulated during the development stage	(2,668,333)	(24,783)
<b>Total stockholders equity (deficit)</b>	<b>72,227,328</b>	<b>(376)</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 97,323,736</b>	<b>\$ 178,678</b>

See accompanying notes to financial statements.

Table of Contents**HAPC, INC.****(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)****(a corporation in the development stage)****STATEMENTS OF OPERATIONS**

	<b>For the period from January 1, 2006 to April 18, 2006</b>	<b>For the period from August 15, 2005 (inception) to December 31, 2005</b>	<b>For the period from August 15, 2005 (inception) to April 18, 2006</b>
Formation and operating costs	\$ 2,641,912	\$ 24,483	\$ 2,666,395
<b>Loss before interest expense and income taxes</b>	<b>(2,641,912)</b>	<b>(24,483)</b>	<b>(2,666,395)</b>
Interest expense	894	300	1,194
<b>Loss before income taxes</b>	<b>(2,642,806)</b>	<b>(24,783)</b>	<b>(2,667,589)</b>
Income taxes	744		744
<b>Net loss</b>	<b>\$ (2,643,550)</b>	<b>\$ (24,783)</b>	<b>\$ (2,668,333)</b>
Net loss per share	\$ (1.39)	\$ (.01)	\$ (1.03)
Weighted average shares outstanding			
basic	1,905,764	3,250,000	2,597,562

See accompanying notes to financial statements.

**Table of Contents****HAPC, INC.****(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)****(a corporation in the development stage)****STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)****For the period August 15, 2005 (inception)****to April 18, 2006**

	Common Stock		Deficit			Treasury Stock		Total Stockholders Equity (Deficit)
	Shares	Par Value	Paid-in Capital in Excess of Par	Accumulated During the Development Stage	Deferred Stock Compensation	Shares	Amount	
		\$0.0001						
		Amount						
Common stock issued September 13, 2005	4,166,667	\$ 417	\$ 24,583	\$	\$	\$	\$ 25,000	
Treasury stock purchased						(4,166,667)	(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>Balance 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>	
Stock issuance on April 18, 2006 @ \$6.00	16,666,667	1,666	99,998,336				100,000,002	
Amortization of stock based compensation expense					2,635,939		2,635,939	
Expenses of offering			(10,740,853)				(10,740,853)	
Non-Cash charge related to sale of underwriters purchase option			1,966,666				1,966,666	
Proceeds subject to possible conversion 3,331,667 and 0 shares respectively at conversion value			(18,990,500)				(18,990,500)	
Net loss				(2,643,550)			(2,643,550)	
<b>Balance at April 18, 2006</b>	<b>20,833,334</b>	<b>\$ 2,083</b>	<b>\$ 80,668,237</b>	<b>\$ (2,668,333)</b>	<b>\$ (5,774,659)</b>	<b>(2,416,666)</b>	<b>\$ 72,227,328</b>	

See accompanying notes to financial statements

Table of Contents**HAPC, INC.**

(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)

(a corporation in the development stage)

**STATEMENTS OF CASH FLOWS**

	For the period from January 1, 2006 to April 18, 2006	For the period from August 15, 2005 (inception) to December 31, 2005	For the period from August 15, 2005 (inception) to April 18, 2006
<b>Cash flows from operating activities:</b>			
Net loss	\$ (2,643,550)	\$ (24,783)	\$ (2,668,333)
<b>Adjustment to reconcile net loss to net cash used in operating activities:</b>			
Increase in prepaid expenses	(416,700)		(416,700)
Stock issued for services	2,635,939	24,407	2,660,346
Increase in accrued expenses	424,155	300	424,455
<b>Net cash used in operating activities</b>	<b>(156)</b>	<b>(76)</b>	<b>(232)</b>
<b>Cash flows from investing activities:</b>			
Payment to trust account	(95,000,000)		(95,000,000)
<b>Net cash used in investing activities</b>	<b>(95,000,000)</b>		<b>(95,000,000)</b>
<b>Cash flows from financing activities:</b>			
Advance from initial stockholder		100	100
Proceeds from note payable		60,000	60,000
Payment of deferred offering costs	(3,106,400)	(71,434)	(3,177,834)
Proceeds from issuance of shares of stock	81,009,502	25,000	81,034,502
<b>Proceeds from issuance of shares of stock subject to possible conversion</b>	<b>18,990,500</b>		<b>18,990,500</b>
<b>Net cash provided by financing activities</b>	<b>96,893,602</b>	<b>13,666</b>	<b>96,907,268</b>
<b>Net increase in cash</b>	<b>1,893,446</b>	<b>13,590</b>	<b>1,907,036</b>
<b>Cash, beginning of period</b>	<b>13,590</b>		
<b>Cash, end of period</b>	<b>\$ 1,907,036</b>	<b>\$ 13,590</b>	<b>\$ 1,907,036</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>			
<b>Schedule of Non-cash Financing Transactions</b>			
Option issued to underwriter	\$ 1,966,666	\$	\$ 1,966,666
Deferred underwriting fees	5,400,000		5,400,000
Issuance of note payable for treasury stock	\$	\$ 25,000	\$ 25,000

See accompanying notes to financial statements.



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**HAPC, INC.**

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

**(a corporation in the development stage)**

**NOTES TO FINANCIAL STATEMENTS**

**1. Organization, Business Operations and Summary and Significant Accounting Policies**

HAPC, Inc. (formerly Healthcare Acquisition Partners Corp.) (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.

At April 18, 2006, the Company had not yet commenced any operations. All activity through April 18, 2006 relates to the Company's formation and the initial public offering described below. The Company has selected December 31 as its fiscal year end.

The registration statement for the Company's initial public offering (the Public Offering) was declared effective on April 11, 2006. The Company consummated the Public Offering on April 18, 2006 and received gross proceeds of \$100,000,002. Legal fees totaling \$497,163 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 2), although substantially all of the net proceeds of the Public Offering are intended to be generally 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).

Of the proceeds of the Public Offering, \$95,000,000 is being held in a trust account (Trust Account) and invested in a money market account 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 \$5,400,000 of contingent underwriting compensation (the Discount) which will be paid to the underwriters if a business combination is consummated, but which will be forfeited in part if public stockholders elect to have their shares redeemed for cash or in full if a business combination is not consummated. The remaining amount of the proceeds may be used to pay business, legal accounting, due diligence on prospective acquisitions and continuing general and administrative expenses.

The Company, after signing a definitive agreement for the acquisition of a target business, will submit such transaction for stockholder approval. In the event that stockholders owning 19.99% or more of the shares sold in the Proposed 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 Proposed 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 Proposed 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 Proposed Offering, or 24 months from the consummation of the Proposed Offering if certain extension criteria have been satisfied. In the event of liquidation, it is likely that the per share value of the residual assets remaining available for distribution (including Trust Account assets) will be less than the initial public offering price per share in the Proposed Offering (assuming no value is attributed to the Warrants contained in the Units to be offered in the Proposed Offering discussed in Note 2).



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**HAPC, INC.**

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

**(a corporation in the development stage)**

**NOTES TO FINANCIAL STATEMENTS (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.

**Recently issued accounting pronouncements**

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

**Loss per common share**

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

**Stock based compensation**

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

**Use of estimates**

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

**Cash Concentration of credit risk**

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

**2. 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 consisted of one share of the Company's common stock, \$.0001 par value, and two Redeemable



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**HAPC, INC.**

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

**(a corporation in the development stage)**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

Common Stock Purchase Warrants ( Warrants ). Each Warrant entitles the holder to purchase from the Company one share of common stock at an exercise price of \$5.00 commencing the later of the completion of a Business Combination or one year from the effective date of the Offering and expiring 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 addition, 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 this Proposed 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) companies with market capitalization under \$200 million that Management believes could be considered to be engaged in a business in the Healthcare Industry (the Sample Companies ). Because the Company does not have a trading history, the Company needed to estimate the potential volatility of its common stock price, which 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 option, if the Company does not consummate a business combination within the prescribed time period and liquidates, the option would become worthless.

### **3. Notes Payable**

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 the Proposed Offering. Due to the short-term nature of the note, the fair value of the note approximates its carrying amount.

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

**Table of Contents****HAPC, INC.****(formerly HEALTHCARE ACQUISITION PARTNERS CORP.)****(a corporation in the development stage)****NOTES TO FINANCIAL STATEMENTS (Continued)****4. Commitments**

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

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

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

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

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

**5. Common and Preferred Stock**

Effective December 30, 2005, Healthcare Acquisition Partners Holdings, LLC sold back to the Company the 4,166,667 common shares that it had received upon formation of 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, computed at \$4.82 per share. Of this amount, \$24,407 and \$2,635,939 was charged to expense for the periods ended December 31, 2005 and April 18, 2006, respectively. The Company will recognize the remaining \$5,774,659 of compensation as an expense ratably over the vesting period of the shares. Each individual receiving the shares has agreed that if they cease to be an officer or director prior to the following dates (other than as a result of (i) disability, as determined by the board of directors of the Company or as certified by a physician in a letter to the board of directors of the Company, (ii) death, (iii) removal by the Company without cause (as defined in the Letter Agreements (the "Letter Agreements"), dated December 30, 2005, between each of the individuals receiving shares and the Company, or (iv) resignation for Good Reason (as defined in the Letter Agreements), a portion of the shares will be forfeited as follows:

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



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**HAPC, INC.**

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

**(a corporation in the development stage)**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

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.

At April 18, 2006, 33,333,334 shares of common stock were reserved for issuance upon exercise of redeemable warrants.

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.

**6. Subsequent Event**

The Company will utilize certain administrative, technology 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 Proposed Offering and continuing annually thereafter.

On April 19, 2006, the Company amended its articles of incorporation to change its name to HAPC, Inc. from Healthcare Partners Acquisition Corp.

**Table of Contents****INFUSYSTEM, INC.****CONDENSED BALANCE SHEETS**

(Amounts in thousands)

(Unaudited)

	September 30, 2006	December 31, 2005
<b>Assets</b>		
Current assets:		
Cash	\$ 1,481	\$ 2,463
Accounts receivable, less allowance for doubtful accounts of \$1,793 and \$1,723 at September 30, 2006 and December 31, 2005, respectively	10,244	9,160
Inventory supplies	264	187
Prepaid expenses and other current assets	152	218
Deferred taxes	733	687
Total current assets	12,874	12,715
Property, net	11,402	12,477
Goodwill	2,174	2,639
Total assets	\$ 26,450	\$ 27,831
<b>Liabilities and Stockholder's Equity</b>		
Current liabilities:		
Accounts payable	\$ 1,213	\$ 901
Accrued payroll and related expenses	831	1,663
Accrued use taxes payable	1,281	1,173
State income taxes payable		157
Other current liabilities	18	12
Total current liabilities	3,343	3,906
Deferred taxes	1,394	1,470
Commitments and contingencies (Note 4)		
Stockholder's equity		
Common stock, \$0.01 par value; 100 shares authorized, issued and outstanding at September 30, 2006 and December 31, 2005		
Additional paid-in capital	8,544	8,544
Retained earnings	13,169	13,911
Total stockholder's equity	21,713	22,455
Total liabilities and stockholder's equity	\$ 26,450	\$ 27,831

See accompanying notes to condensed financial statements.





**Table of Contents****INFUSYSTEM, INC.****CONDENSED STATEMENTS OF INCOME**

(Amounts in thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Net rental income	\$ 7,825	\$ 8,640	\$ 23,508	\$ 21,444
Cost of revenues	2,126	2,124	6,287	5,720
Gross profit	5,699	6,516	17,221	15,724
Operating expenses:				
Selling and marketing	831	1,131	2,736	3,212
General and administrative	3,162	2,337	8,223	5,882
Total operating expenses	3,993	3,468	10,959	9,094
Operating income	1,706	3,048	6,262	6,630
Interest expense	28	31	86	31
Income before income taxes	1,678	3,017	6,176	6,599
Income tax (benefit) expense	603	1,110	2,249	2,367
Net income	\$ 1,075	\$ 1,907	\$ 3,927	\$ 4,232

See accompanying notes to condensed financial statements.

**Table of Contents****INFUSYSTEM, INC.****CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDER S EQUITY****(Amounts in thousands)****(Unaudited)**

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total
	Shares	Amount			
Balance, January 1, 2006	100	\$	\$ 8,544	\$ 13,911	\$ 22,455
Net dividends to parent				(4,669)	(4,669)
Net income				3,927	3,927
Balance, September 30, 2006	100	\$	\$ 8,544	\$ 13,169	\$ 21,713

See accompanying notes to condensed financial statements.

**Table of Contents****INFUSYSTEM, INC.****CONDENSED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 3,927	\$ 4,232
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	2,748	2,356
Provision for doubtful accounts receivable	2,820	952
Deferred taxes	(122)	(398)
Loss on disposal of property	247	340
Stock-based compensation	173	291
Write-off of obsolete inventory supplies	1	
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(3,904)	(5,557)
Inventories	(78)	(55)
Prepaid expenses and other current assets	104	(65)
Accounts payable	103	(379)
Accrued payroll and related expenses	(832)	130
State income taxes payable	(195)	119
Other current liabilities	6	
<b>Net cash provided by operating activities</b>	<b>4,998</b>	<b>1,966</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(1,603)	(5,530)
Proceeds from sale of property		1
<b>Net cash used in investing activities</b>	<b>(1,603)</b>	<b>(5,529)</b>
<b>Cash flows from financing activities:</b>		
Net capital contributions from parent		3,785
Net capital distributions to parent	(4,377)	
<b>Net cash provided by (used in) financing activities</b>	<b>(4,377)</b>	<b>3,785</b>
<b>Net decrease in cash</b>	<b>(982)</b>	<b>222</b>
Cash at beginning of year	2,463	860
<b>Cash at end of year</b>	<b>\$ 1,481</b>	<b>\$ 1,082</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Interest paid	\$ 19	\$ 95
State income tax payments	\$ 168	\$ 58

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SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES:

Property acquisitions	\$ 1,388	\$ 1,588
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SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES:

Income taxes payable contributed from parent	\$ 2,082	\$ 2,588
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See accompanying notes to condensed financial statements.

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**Table of Contents****INFUSYSTEM, INC.****Notes to Condensed Financial Statements****(Unaudited)****1. General**

InfuSystem, Inc. ( InfuSystem or the Company ) is a wholly owned subsidiary of I-Flow Corporation ( I-Flow or the Parent ). The Company was incorporated in California on December 18, 1997. The Company is a leading provider of ambulatory infusion pump management services and is based in Madison Heights, Michigan. It is primarily engaged in the rental of ambulatory electronic infusion pumps on a month-to-month basis for the administration of chemotherapy drugs for the treatment of cancer.

On September 29, 2006, I-Flow signed a definitive agreement to sell the Company to HAPC, Inc. for \$140 million in the form of cash and a secured note, subject to certain purchase price adjustments based on the level of working capital. The cash portion of the purchase price will range from \$65 to \$85 million, depending on the amount HAPC, Inc. pays to its shareholders who choose to convert their HAPC shares into cash. This amount will not be known until the closing of the transaction. The closing of the transaction is subject to standard conditions and approval by the shareholders of HAPC, Inc., and currently is expected to close late in 2006 or early 2007. In connection with the pending sale of the Company to HAPC, Inc., the Parent incurred certain expenses related to the divestiture of the Company, including legal and professional fees that resulted directly from the sale transaction. Divestiture expenses for the three and nine months ended September 30, 2006 were \$1,655,000 and \$1,809,000, respectively, which was not reimbursed from the Company.

The Company provided certain administrative services to the Parent related to the Parent's ON-Q PainBuster® Pain Management System ( ON-Q ). Specifically, the Company provided customer service, billings to third party insurance, collections, and solicitation of managed care contracts with insurance companies on behalf of I-Flow and its ON-Q product line, primarily in ambulatory surgery centers ( ASC s ). The Company was not reimbursed from the Parent for these services.

The Company estimates that processing costs borne by the Company for ON-Q billings and reflected in its financial statements for the three and nine months ended September 30, 2006 and 2005 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(Amounts in millions)			
Direct payroll expenses	\$ 0.2	\$ 0.3	\$ 0.6	\$ 0.5
Indirect or allocated expenses	0.2	0.2	0.5	0.5
<b>Total</b>	<b>\$ 0.4</b>	<b>\$ 0.5</b>	<b>\$ 1.1</b>	<b>\$ 1.0</b>

The Parent also provided certain administrative services to the Company during the same time periods. Costs incurred by the Parent on behalf of the Company that were clearly applicable to the Company were charged to the Company and included the following administrative services:

The Parent provided workers' compensation insurance to employees of the Company. The Company's financial statements for the three and nine months ended September 30, 2006 include workers' compensation insurance expenses of approximately \$7,000 and \$21,000, respectively, which were recorded in general and administrative expenses. Workers' compensation insurance expenses for the three and nine months ended September 30, 2005 were \$7,000 and \$22,000, respectively, which were recorded in general and administrative expenses.

Many of the Company's employees received stock options and other stock-based awards relating to the stock of I-Flow. The Parent determined the expense based on the outstanding stock-based awards granted specifically to employees of the Company. The

Company's financial statements for the three

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**INFUSYSTEM, INC.**

**Notes to Condensed Financial Statements (Continued)**

**(Unaudited)**

and nine months ended September 30, 2006 include stock-based compensation expense of approximately \$75,000 (of which \$35,000 and \$40,000 were recorded in selling and marketing and general and administrative expenses, respectively) and \$173,000 (of which \$71,000 and \$102,000 were recorded in selling and marketing and general and administrative expenses, respectively), respectively. Stock-based compensation expenses for the three and nine months ended September 30, 2005 were \$104,000 (of which \$71,000 and \$33,000 were recorded in selling and marketing and general and administrative expenses, respectively) and \$291,000 (of which \$194,000 and \$97,000 were recorded in selling and marketing and general and administrative expenses, respectively), respectively.

Although the Company files a consolidated and certain combined state tax returns with its Parent, the Company recorded income taxes payable as a result of preparing its financial statements on a separate tax return basis. Income taxes payable of \$2.1 million and \$2.6 million for the nine months ended September 30, 2006 and 2005 were recognized as contributions from the Parent, respectively.

**2. Summary of Significant Accounting Policies**

*Basis of Presentation* The accompanying unaudited condensed financial statements contain all adjustments (consisting only of normal recurring adjustments) that, in the opinion of management, are necessary to present fairly the financial position of the Company at September 30, 2006 and the results of its operations for the three and nine-month periods ended September 30, 2006 and 2005 and cash flows for the nine-month periods ended September 30, 2006 and 2005. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission (the "SEC"), although the Company believes that the disclosures in the financial statements are adequate to make the information presented not misleading.

The financial statements included herein should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2005.

*Cash* As of September 30, 2006, the Company maintains its cash primarily with a single financial institution.

*Concentrations of Credit Risk* The Company maintains cash deposits within a single depository institution in excess of federally insured limits.

*Accounts Receivable* The Company performs periodic analyses to evaluate its accounts receivable balances. It records an allowance for doubtful accounts based on the estimated collectibility of the accounts such that the recorded amounts reflect estimated net realizable value. Upon determination that an account is uncollectible, the account is written-off and charged to the allowance.

In determining its accounts receivable balances and allowance for doubtful accounts, management considers historical realization data, accounts receivable aging trends, operating trends, and other relevant business conditions such as governmental and managed care payor claims processing procedures and system changes. The Company's analysis includes the application of specified percentages to the accounts receivable agings to estimate the amount that will ultimately be uncollectible and, therefore, should be reserved. The percentages are increased as the accounts age. Due to the continuing changes in the health care industry and third-party reimbursement, it is possible that management's estimates could change in the near term, which could have an impact on its financial position, results of operations and cash flows.

*Inventory Supplies* Inventory supplies are stated at the lower of cost (determined on a first in, first out basis) or market. The Company records a period expense for inventory supplies obsolescence when incurred.

**Table of Contents****INFUSYSTEM, INC.****Notes to Condensed Financial Statements (Continued)****(Unaudited)**

*Long-Lived Assets* The Company accounts for the impairment and disposition of long-lived assets in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets* ( SFAS 144 ). SFAS 144 addresses financial accounting and reporting for the impairment of long-lived assets and for the disposal of long-lived assets. In accordance with SFAS 144, long-lived assets to be held are reviewed for events or changes in circumstances, which indicate that their carrying value may not be recoverable. Recoverability of these assets is determined based upon the expected undiscounted future net cash flows from the operations to which the assets relate, utilizing management's best estimates, appropriate assumptions, and projections at the time. If the carrying value is determined not to be recoverable from future operating cash flows, the asset is deemed impaired and an impairment loss would be recognized to the extent the carrying value exceeded the estimated fair market value of the asset. The Company periodically reviews the carrying value of long-lived assets to determine whether an impairment to such value has occurred. The Company has determined that there was no impairment as of September 30, 2006.

*Property* Property is stated at cost and depreciated using the straight-line method over the estimated useful lives of the related assets, ranging from three to seven years. Rental equipment, consisting of ambulatory infusion pumps that the Company acquires from third-party manufacturers, is depreciated over five years. Leasehold improvements are amortized using the straight-line method over the life of the asset or the remaining term of the lease, whichever is shorter. Maintenance and minor repairs are charged to operations as incurred. When assets are sold, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recorded in the current period. Property consisted of the following as of September 30, 2006:

	<b>September 30, 2006</b>
	<b>(Amounts in thousands)</b>
Pump equipment	\$ 21,240
Furniture, fixtures and equipment	1,271
Accumulated depreciation and amortization	(11,109)
Total	\$ 11,402

*Goodwill* The Company recognizes goodwill in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ( SFAS 142 ). Under SFAS 142, goodwill is recorded at its carrying value and is tested for impairment at least annually. The Company reviews the recoverability of the carrying value of goodwill on an annual basis or more frequently if an event occurs or circumstances change to indicate that an impairment of goodwill has possibly occurred. The Company compares the fair value of its operating unit to the carrying value, as well as other factors, to determine whether or not any potential impairment of goodwill exists. If a potential impairment exists, an impairment loss is recognized to the extent the carrying value of goodwill exceeds the difference between the fair value of the operating unit and the fair value of its other assets and liabilities. No goodwill impairment existed as of September 30, 2006.

A deferred tax asset in the amount of \$465,000 existed at the time of the Company's acquisition by I-Flow in 1998. A valuation allowance of \$465,000 was established for the deferred tax asset. The valuation allowance was reversed and goodwill was reduced by \$465,000 in September 2006 due to a determination that it is more likely than not that the deferred tax asset will be realized.

*Revenue Recognition* Rental revenue in the oncology market is the Company's strategic focus. The Company does not recognize revenue until all of the following criteria are met: persuasive evidence of an arrangement exists; shipment and passage of title has occurred; the price to the customer is fixed or determinable; and collectibility is reasonably assured. Persuasive evidence of an arrangement is determined to exist, and collectibility is reasonably assured, at the point in which a certificate of medical necessity and assignment of



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**INFUSYSTEM, INC.**

**Notes to Condensed Financial Statements (Continued)**

**(Unaudited)**

benefits, signed by the physician and patient, respectively, have been received by the Company, and the Company has verified actual pump usage and insurance coverage. Rental revenue from electronic infusion pumps

is recognized as earned over the term of the related rental agreements, normally on a month-to-month basis. Pump rentals are billed at the Company's established rates, which often differ from contractually allowable rates provided by third party payors such as Medicare, Medicaid and commercial insurance carriers. Provision is made currently to reduce revenue to the estimated allowable amount per such contractual rates. For the three months ended September 30, 2006, revenue from Medicare, Blue Cross Blue Shield and Medicaid accounted for 33%, 20% and 2% of total revenue, respectively. For the nine months ended September 30, 2006, revenue from Medicare, Blue Cross Blue Shield and Medicaid accounted for 32%, 22% and 3% of total revenue, respectively. For the three months ended September 30, 2005, revenue from Medicare, Blue Cross Blue Shield and Medicaid accounted for 37%, 22% and 3% of total revenue, respectively. For the nine months ended September 30, 2005, revenue from Medicare, Blue Cross Blue Shield and Medicaid accounted for 35%, 22% and 3% of total revenue, respectively.

Due to the nature of the industry and the reimbursement environment in which the Company operates, certain estimates are required to record net revenues and accounts receivable at their net realizable values. Inherent in these

estimates is the risk that they will have to be revised or updated as additional information becomes available. Specifically, the complexity of many third-party billing arrangements and the uncertainty of reimbursement amounts for certain services from certain payors may result in adjustments to amounts originally recorded. Because of continuing changes in the healthcare industry and third-party reimbursement, it is possible that management's estimates could change in the near term, which could have an impact on operations and cash flows.

*Income Taxes* The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*, which requires that the Company recognize deferred tax liabilities and assets based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities, using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax benefit (expense) results from the change in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when it is more likely than not that some or all of any deferred tax assets will not be realized. The Company's income taxes as presented in the financial statements have been prepared on a separate return basis.

*Accounting for Stock-Based Compensation* I-Flow, the parent company, historically granted stock-based awards to certain officers and employees of the Company. Total stock-based compensation expense incurred by the Company related to stock options and stock grants by I-Flow to the Company employees for the three and nine months ended September 30, 2006 were \$75,000 and \$173,000, respectively. Total stock-based compensation expense incurred by the Company related to stock options and stock grants by I-Flow to the Company employees for the three and nine months ended September 30, 2005 were \$104,000 and \$291,000, respectively.

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123-revised 2004, *Share-Based Payment* (SFAS 123R), which requires the measurement and recognition of compensation expense based on estimated fair values for all equity-based compensation made to employees and directors. SFAS 123R replaces the guidance in SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123) and supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25).

The Company adopted SFAS 123R using the modified prospective application transition method. In accordance with the modified prospective application transition method, the Company's financial statements for prior periods do not have to be restated to reflect, and do not include, the impact of SFAS 123R. Prior to the adoption of SFAS 123R, the Company accounted for stock-based awards to officers and employees using the

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**INFUSYSTEM, INC.**

**Notes to Condensed Financial Statements (Continued)**

**(Unaudited)**

intrinsic value method in accordance with APB 25 and adopted the disclosure-only alternative of SFAS 123.

Because the Company had adopted the disclosure-only provisions of SFAS 123, no compensation cost was recognized in 2005 for stock option grants to employees and officers with exercise prices at least equal to the fair market value of the underlying shares at the grant date.

SFAS 123R requires companies to estimate the fair value of equity awards on the date of grant using an option-pricing model. The Company uses the Black-Scholes option-pricing model, which it had previously used for valuation of option-based awards for its pro forma information required under SFAS 123 for periods prior to fiscal 2006. The determination of the fair value of option-based awards using the Black-Scholes model incorporates various assumptions including volatility, expected life of awards, risk-free interest rates and expected dividend. The expected volatility is based on the historical volatility of the price of the parent company's common stock over the most recent period commensurate with the estimated expected life of the Company's stock options and adjusted for the impact of unusual fluctuations not reasonably expected to recur. The expected life of an award is based on historical experience and on the terms and conditions of the stock awards granted to employees and non-employee directors. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. No stock options were granted to employees of the Company during the nine months ended September 30, 2006 and three months ended September 30, 2005. During the nine months ended September 30, 2005, 101,000 stock options were granted to employees of the Company with the following weighted-average assumptions used for grants: no dividend yield; expected volatility of 86%; risk-free interest rate of 4.17%; and contractual life of five years.

Stock-based compensation expense is recognized for all new and unvested equity awards that are expected to vest as the requisite service is rendered beginning on January 1, 2006. Stock-based compensation for awards granted prior to January 1, 2006 is based on the grant date fair value as determined under the pro forma provisions of SFAS 123. In conjunction with the adoption of SFAS 123R, the Company changed its method of attributing the value of stock-based compensation expense from the accelerated multiple-option approach to the straight-line single-option method. Compensation expense for all unvested equity awards granted on or prior to December 31, 2005 will continue to be recognized using the accelerated multiple-option approach. Compensation expense for all equity awards granted subsequent to December 31, 2005 will be recognized using the straight-line single-option method. In accordance with SFAS 123R, the Company has factored in forfeitures in its recognition of stock-based compensation. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company accounted for forfeitures as they occurred in the pro forma information required under SFAS 123 for periods prior to fiscal 2006.

SFAS 123R requires that cash flows resulting from tax deductions in excess of the cumulative compensation cost recognized for options exercised (excess tax benefits) be classified as cash inflows from financing activities and cash outflows from operating activities. No excess tax benefits were attributed to the share-based compensation expense.

From and after May 26, 2005, stock-based awards granted to officers and employees of the Company are granted from I-Flow active equity incentive plans that were approved by I-Flow's stockholders. All future grants of stock options (including incentive stock options or nonqualified stock options), restricted stock, restricted stock units or other forms of equity-based compensation to officers and employees of the Company are expected to be made under the I-Flow Corporation 2001 Equity Incentive Plan (the 2001 Plan), which was approved by I-Flow's stockholders in May 2001. The maximum number of shares of common stock that may be issued pursuant to awards under the 2001 Plan is currently 7,750,000, subject to adjustments for stock splits or other adjustments as defined in the 2001 Plan.

**Table of Contents****INFUSYSTEM, INC.****Notes to Condensed Financial Statements (Continued)****(Unaudited)***Stock Options*

Options granted under the 2001 Plan become exercisable at such times as determined by the I-Flow compensation committee of the board of directors or the I-Flow board of directors itself. Options granted to officers and employees of the Company generally have an exercise price equal to the market price of the I-Flow's stock at the date of the grant, with vesting and contractual terms of five years. Options generally provide for accelerated vesting if there is a change in control (as defined in the 2001 Plan or, as applicable, the officers' employment and change in control agreements). I-Flow issues new shares upon the exercise of stock options. The following table provides a summary of all the Company's outstanding options as of September 30, 2006 and of changes in options outstanding during the nine months ended September 30, 2006:

	Number of Shares	Weighted- Average Exercise Price per Share	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Options outstanding at December 31, 2005	337,324	\$ 9.68		
Options granted		\$ 13.46		
Options exercised	(26,911)	\$ 2.59		
Options forfeited or expired	(304)	\$ 2.60		
Options outstanding at September 30, 2006	310,109	\$ 10.30	2.03	\$ 1,208,939
Options vested and exercisable at September 30, 2006	278,290	\$ 11.11	2.11	\$ 930,354

The above table excludes equity awards granted to sales representatives and sales management with exercise prices below fair market value. Such awards have been included in the restricted stock units table below.

No options were granted during the nine months ended September 30, 2006. The weighted-average fair value of options granted during the nine months ended September 30, 2005, estimated as of the grant date using the Black-Scholes option valuation model, was \$12.23 per option. The total intrinsic value of options exercised during the nine months ended September 30, 2006 and 2005 was \$0.4 million and \$0.9 million, respectively.

As of September 30, 2006, total unrecognized compensation expense related to unvested stock options was \$17,000. This expense is expected to be recognized over a remaining weighted-average period of 0.59 year.

On November 9, 2005, the board of directors of I-Flow approved the amendment of stock options that were previously granted to employees and officers with exercise prices at a discount to the fair market value. The amendments increased the exercise price to the fair market value on the date the options were granted and accelerated the vesting of approximately 150,000 unvested, out-of-the-money stock options previously awarded to officers and employees of the Company. A total of 175,000 stock options granted to officers and employees of the Company with original exercise prices of \$11.52 and \$14.94 per share were increased to \$13.55 and \$17.58 per share, respectively, effective November 9, 2005. In 2005, I-Flow compensated the officers and employees of the Company for the increased exercise prices by granting approximately 23,000 shares of I-Flow's common stock such that the value of the shares granted (based on the closing price of I-Flow's common stock on November 9, 2005 of \$11.91) equaled the value of the lost discount in exercise price, net of shares withheld to pay withholding taxes. With respect to the acceleration of vesting, options with an exercise price greater than \$11.91 per share (giving effect to the increased exercise price) were deemed

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out-of-the-money. The accelerated options granted to officers and employees of the Company, which are considered fully vested as of November 9, 2005 have exercise prices ranging from \$13.52 to \$17.58 per share and a weighted average exercise price of \$16.24 per share. Among the primary purposes of the amended exercise price and acceleration were to comply

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**Table of Contents****INFUSYSTEM, INC.****Notes to Condensed Financial Statements (Continued)****(Unaudited)**

with new deferred compensation tax laws, to promote employee motivation, retention and the perception of option value and to avoid recognizing future compensation expense associated with out-of-the-money stock options upon adoption of SFAS 123R, which replaces SFAS 123, and supersedes APB 25 in fiscal 2006.

Effective January 1, 2006, under SFAS 123R, approximately 81,500 stock options with exercise prices of \$1.33 or \$2.47 per share were increased to \$1.66 and \$2.91 per share, respectively. In January 2006, I-Flow compensated the 8 affected option holders for the increased exercise price by granting approximately 1,500 shares of the I-Flow's common stock. Due to the immaterial incremental compensation cost related to the increased exercise prices and shares granted, no expense was allocated to the Company by I-Flow during the nine months ended September 30, 2006.

For stock options granted prior to the adoption of SFAS 123R, the following table illustrates the pro forma effect on net loss and loss per share as if the Company had applied the fair value recognition provisions of SFAS 123 in determining stock-based compensation for options:

	Three Months Ended	Nine Months Ended
	September 30, 2005	September 30, 2005
(Amounts in thousands, except per share amounts)		
Net income as reported	\$ 1,907	\$ 4,232
Stock-based compensation expense included in net loss, net of tax	66	187
Total stock-based compensation expense determined under fair value based method for all awards, net of tax	(343)	(1,052)
Net income pro forma	\$ 1,630	\$ 3,367

*Restricted Stock Units*

Restricted stock units are granted pursuant to the 2001 Plan and as determined by the I-Flow compensation committee of the I-Flow board of directors or the board of directors itself. Restricted stock units granted to officers and employees of the Company generally have vesting periods ranging from three to five years from the date of grant. Restricted stock units granted to sales representatives and sales management have a maximum vesting term of three years from the date of grant. The Company issues new shares upon the vesting of restricted stock units. In accordance with SFAS 123R, the fair value of restricted stock units is estimated based on the closing market value stock price on the date of grant and the expense is recognized straight-lined over the requisite period. The total number of shares of restricted stock units expected to vest is adjusted by estimated forfeiture rates. The following table provides a summary of the Company's restricted stock units as of September 30, 2006 and of changes in restricted stock units outstanding under the 2001 Plan during the nine months ended September 30, 2006:

	Number of	Weighted-Average Grant Date Fair Value
	Shares	Per Share
Nonvested shares outstanding at December 31, 2005	29,000	\$ 15.16
Shares issued	77,140	13.65
Shares vested or released	8,000	15.47

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Shares forfeited	(1,000)		13.85
Nonvested shares outstanding at September 30, 2006	97,140	\$	13.95

As of September 30, 2006, total unrecognized compensation costs related to nonvested restricted stock units was approximately \$0.9 million. The expense for the nonvested restricted stock units is expected to be recognized

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**Table of Contents****INFUSYSTEM, INC.****Notes to Condensed Financial Statements (Continued)****(Unaudited)**

over a remaining weighted-average vesting period of 2.05 years. The total value of shares vested during the nine months ended September 30, 2006 was approximately \$0.1 million.

*Use of Estimates* The preparation of financial statements in conformity with generally accepted accounting principles necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates.

*New Accounting Pronouncements* In July 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ), which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, interest and penalties, accounting in interim periods and disclosure requirements for uncertain tax positions. The accounting provisions of FIN 48 are effective for reporting periods beginning after December 15, 2006. The Company is currently assessing the impact of the adoption of FIN 48 and its impact on the Company's financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective as of the beginning of the Company's 2008 fiscal year. The Company is currently assessing the impact of the adoption of SFAS 157 and its impact on the Company's financial statements.

**3. Shareholder's Equity**

At inception, the Company received capital contributions of approximately \$3.3 million from the Parent, which were used primarily in the acquisition of the Company's operations. Net dividends to the Parent for the nine months ended September 30, 2006 were as follows:

	<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Amounts in thousands)</b>	
Stock-based compensation expense charge	\$ 173	\$ 291
Workers' compensation insurance charge	21	22
Stock option income tax benefit	84	222
Income tax liability forgiveness by Parent	1,998	2,366
Goodwill reversal (See Note 2 on Summary of Significant Accounting Policies)	(465)	
Net cash transfer (to) from Parent	(6,480)	1,175
<b>Net dividends to Parent</b>	<b>\$ (4,669)</b>	<b>\$ 4,076</b>

**4. Commitments and Contingencies**

*Leases* The Company entered into leases in July 2002 for approximately 14,000 square feet of general office space and approximately 4,000 square feet of warehouse space in Madison Heights, Michigan. Both leases have a term of five years.





**Table of Contents****INFUSYSTEM, INC.****Notes to Condensed Financial Statements (Continued)****(Unaudited)**

Future minimum lease payments under these leases are as follows:

Years Ended December 31,	(Amounts in thousands)	
2006	\$	227
2007		117
<b>Total</b>	<b>\$</b>	<b>344</b>

Rent expense for the three and nine months ended September 30, 2006 was \$57,000 and \$164,000, respectively, which were recorded in general and administrative expenses in the accompanying financial statements. Rent expense for the three and nine months ended September 30, 2005 was \$48,000 and \$129,000, respectively.

*Michigan Use Taxes* In accordance with a decision and order of determination received from the State of Michigan Department of Treasury, the Company is subject to sales and use taxes in the state of Michigan, and has recorded in each period presented use taxes on its purchases of ambulatory infusion pumps as an increase in fixed assets. As of September 30, 2006, the Company has recorded a cumulative net increase to gross fixed assets of \$1,168,000, a tax liability of \$1,281,000, and total expense of \$861,000 (of which \$78,000 and \$221,000 were recorded during the three and nine months ended September 30, 2006, respectively), consisting of \$651,000 cost of sales (of which \$52,000 and \$154,000 were recorded during the three and nine months ended September 30, 2006, respectively) and \$210,000 accrued interest expense (of which \$26,000 and \$66,000 were recorded during the three and nine months ended September 30, 2006, respectively). The Company is currently appealing the decision. The Company believes that portable infusion pumps qualify for an exemption from tax under Michigan law.

*Private Insurers and Government Reimbursement* The Company is paid directly by private insurers and governmental agencies, often on a fixed fee bases, for infusion pump management services provided by the Company to patients. The healthcare reimbursement system is in a constant state of change. Changes to the healthcare system that favor technologies other than the Company's or that reduce the average fees allowable by private insurers or governmental agencies could have a material adverse effect on the Company's financial position, results of operations and cash flows.

*Guarantees and Indemnifications* The Company enters into certain types of contracts from time to time that contingently require the Company to indemnify parties against third party claims. These contracts primarily relate to Company license, consulting, distribution and purchase agreements with its customers and other parties, under which the Company may be required to indemnify such parties for intellectual property infringement claims, product liability claims, and other claims arising from the Company's provision of products or services to such parties.

The terms of the foregoing types of obligations vary. A maximum obligation arising out of these types of agreements is not explicitly stated and, therefore, the overall maximum amount of these obligations cannot be reasonably estimated. Historically, the Company has not been obligated to make significant payments for these obligations and, thus, no liabilities have been recorded for these obligations on its balance sheet as of December 31, 2005 and September 30, 2006.

*Other Litigation* The Company is involved in litigation arising from the normal course of operations. In the opinion of management, the ultimate impact of such litigation will not have a material adverse effect on the Company's financial position and results of operations.

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**INFUSYSTEM, INC.**

**Notes to Condensed Financial Statements (Continued)**

**(Unaudited)**

**5. Employee Benefit Plan**

Employees of the Company working more than 1,040 hours annually may participate in the parent company's 401(k) retirement plan. The Company contributes \$0.33 for each dollar of employee contribution up to a maximum contribution by the Company of 1.32% of each participant's annual salary. The maximum contribution by the Company of 1.32% corresponds to an employee contribution of 4% of annual salary. Participants vest in the Company's contribution ratably over five years. Such contributions totaled \$17,000 and \$60,000 for the three and nine months ended September 30, 2006, respectively, and were included in general and administrative expenses in the accompanying financial statements. Contributions for the three and nine months ended September 30, 2005 were \$15,000 and \$50,000, respectively. The Company does not provide post-retirement benefits to its employees.

**6. Related Party Transactions**

Steven Watkins, President of the Company, owns 5% of Tu-Effs Limited Partnership, which owns the premises currently leased by the Company. Rent expense for the leased premises for the three and nine months ended September 30, 2006 was \$57,000 and \$164,000, respectively, which was recorded in general and administrative expenses in the accompanying financial statements. Rent expense for the three and nine months ended September 30, 2005 was \$48,000 and \$129,000, respectively.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholder of

InfuSystem, Inc.:

We have audited the accompanying balance sheets of InfuSystem, Inc. (a California corporation) (the Company) (a wholly owned subsidiary of I-Flow Corporation (the Parent)) as of December 31, 2005 and 2004, and the related statements of income, stockholder's equity, and cash flows for the years ended December 31, 2005, 2004, and 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years ended December 31, 2005, 2004, and 2003, in conformity with accounting principles generally accepted in the United States of America.

As further described in Note 1, the accompanying financial statements have been prepared from the separate records maintained by the Company and may not necessarily be indicative of the conditions that would have existed or the results of operations if the Company had been operated as an unaffiliated company.

/s/ Deloitte & Touche LLP

September 19, 2006

**Table of Contents****INFUSYSTEM, INC.****(A Wholly Owned Subsidiary of I-Flow Corporation)****Balance Sheets****December 31, 2005 and 2004****(Amounts in thousands)**

	2005	2004
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 2,463	\$ 860
Accounts receivable, less allowance for doubtful accounts of \$1,723 and \$757 at December 31, 2005 and 2004, respectively	9,160	4,920
Inventories	187	226
Prepaid expenses and other current assets	218	98
Deferred taxes	687	323
Total current assets	12,715	6,427
PROPERTY Net	12,477	8,599
GOODWILL	2,639	2,639
<b>TOTAL</b>	<b>\$ 27,831</b>	<b>\$ 17,665</b>
<b>LIABILITIES AND STOCKHOLDER S EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 901	\$ 1,260
Accrued payroll and related expenses	1,663	1,297
Accrued use taxes payable	1,173	749
State income taxes payable	157	79
Other current liabilities	12	
Total current liabilities	3,906	3,385
DEFERRED TAXES	1,470	1,457
<b>COMMITMENTS AND CONTINGENCIES (Note 7)</b>		
<b>STOCKHOLDER S EQUITY:</b>		
Common stock, \$0.01 par value; 100 shares authorized, issued and outstanding at December 31, 2005 and 2004	8,544	4,005
Additional paid-in capital	13,911	8,818
Retained earnings	22,455	12,823
Total stockholder s equity	22,455	12,823
<b>TOTAL</b>	<b>\$ 27,831</b>	<b>\$ 17,665</b>

See notes to financial statements.



**Table of Contents****INFUSYSTEM, INC.****(A Wholly Owned Subsidiary of I-Flow Corporation)****Statements of Income****Years Ended December 31, 2005, 2004 and 2003****(Amounts in thousands)**

	<b>2005</b>	<b>2004</b>	<b>2003</b>
NET RENTAL INCOME	\$ 28,525	\$ 19,349	\$ 13,022
COST OF REVENUES	7,735	5,555	3,993
GROSS PROFIT	20,790	13,794	9,029
OPERATING EXPENSES:			
Selling and marketing	4,315	3,195	2,962
General and administrative	8,394	5,947	4,168
Total operating expenses	12,709	9,142	7,130
OPERATING INCOME	8,081	4,652	1,899
INTEREST EXPENSE	50	29	32
INTEREST BEFORE INCOME TAXES	8,031	4,623	1,867
INCOME TAX PROVISION	2,938	1,699	720
NET INCOME	\$ 5,093	\$ 2,924	\$ 1,147

See notes to financial statements.

**Table of Contents****INFUSYSTEM, INC.****(A Wholly Owned Subsidiary of I-Flow Corporation)****Statements of Stockholders' Equity****Years Ended December 31, 2005, 2004 and 2003****(Amounts in thousands)**

	Common Stock		Additional		Total
	Shares	Amount	Paid-in Capital	Retained Earnings	
BALANCE January 1, 2003	100	\$	\$ 3,321	\$ 6,464	\$ 9,785
Net dividends to parent				(1,717)	(1,717)
Net income				1,147	1,147
BALANCE December 31, 2003	100		3,321	5,894	9,215
Net contributions from parent			684		684
Net income				2,924	2,924
BALANCE December 31, 2004	100		4,005	8,818	12,823
Net contributions from parent			4,539		4,539
Net income				5,093	5,093
BALANCE December 31, 2005	100	\$	\$ 8,544	\$ 13,911	\$ 22,455

See notes to financial statements.

**Table of Contents****INFUSYSTEM, INC.****(A Wholly Owned Subsidiary of I-Flow Corporation)****Statements of Cash Flows****Years Ended December 31, 2005, 2004 and 2003****(Amounts in thousands)**

	2005	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 5,093	\$ 2,924	\$ 1,147
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,259	1,821	1,255
Provision for doubtful accounts	1,260	1,297	574
Deferred taxes	(351)	1,156	212
Stock-based compensation	1,085	297	55
Loss on disposal of property	370	99	
Write-down of inventory obsolescence	12	22	49
Changes in operating assets and liabilities:			
Accounts receivable	(5,500)	(2,195)	(75)
Inventories	27	(37)	(31)
Prepaid expenses and other current assets	(120)	(15)	(40)
Accounts payable	(565)	(11)	(90)
Accrued payroll and related expenses	366	463	443
State income taxes payable	78	42	(13)
Other current liabilities	12	(1)	
Net cash provided by operating activities	5,026	5,862	3,486
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Capital expenditures	(6,878)	(5,500)	(2,351)
Proceeds from sale of property	1	2	
Net cash used in investing activities	(6,877)	(5,498)	(2,351)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net capital contributions from parent	3,454	387	
Net capital distribution to parent			(1,772)
Principal payments on debt			(80)
Net cash provided by (used in) financing activities	3,454	387	(1,852)
NET INCREASE (DECREASE) IN CASH	1,603	751	(717)
CASH Beginning of year	860	109	826
CASH End of year	\$ 2,463	\$ 860	\$ 109
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>			
Interest paid	\$ 145	\$ 1	\$ 15
Income tax payments	\$ 138	\$ 90	\$ 65



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SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES	Property acquisitions	\$ 1,135	\$ 1,191	\$ 439
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES	Income taxes payable contributed from parent	\$ 2,993	\$ 375	\$ 406

See notes to financial statements.

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**Table of Contents****INFUSYSTEM, INC.****(A Wholly Owned Subsidiary of I-Flow Corporation)****Notes to Financial Statements****As of December 31, 2005 and 2004, and for the years ended December 31, 2005, 2004 and 2003****1. General**

InfuSystem, Inc. ( InfuSystem or the Company ) is a wholly owned subsidiary of I-Flow Corporation ( I-Flow or the Parent ). The Company was incorporated in California on December 18, 1997. The Company is a leading provider of ambulatory infusion pump management services and is based in Madison Heights, Michigan. It is primarily engaged in the rental of ambulatory electronic infusion pumps on a month-to-month basis for the administration of chemotherapy drugs for the treatment of cancer.

The Company provided certain administrative services to the Parent during the years ended December 31, 2005, 2004, and 2003, related to the Parent's ON-Q PainBust® Pain Management System ( ON-Q ). Specifically, the Company provided customer service, billings to third-party insurance, collections, and solicitation of managed care contracts with insurance companies on behalf of I-Flow and its ON-Q product line, primarily in ambulatory surgery centers ( ASC s ). The Company was not reimbursed from the Parent for these services.

The Company estimates that processing costs borne by the Company for ON-Q billings and reflected in its financial statements for 2005, 2004, and 2003, respectively, were approximately \$1.2 million, \$0.3 million, and \$0.2 million. The 2005 estimated expense consisted of approximately \$0.5 million in direct payroll expenses and \$0.7 million of indirect or allocated expenses. The 2004 estimated expense consisted of approximately \$0.2 million in direct payroll expenses and \$0.1 million of indirect or allocated expenses, and the 2003 estimated expense consisted of approximately \$0.1 million in direct payroll expenses and \$0.1 million of indirect or allocated expenses.

The Parent also provided certain administrative services to the Company during the same time periods. Costs incurred by the Parent on behalf of the Company that were clearly applicable to the Company were charged to the Company and included the following administrative services:

The Parent provided workers' compensation insurance to employees of the Company. The Company's financial statements for the years ended December 31, 2005, 2004, and 2003, include workers' compensation insurance expense of approximately \$29,000, \$20,000, and \$18,000, respectively, which was recorded in general and administrative expenses.

Many of the Company's employees received stock options and other stock-based awards relating to the stock of I-Flow. The Parent determined the expense based on the outstanding stock-based awards granted specifically to employees of the Company. Stock-based compensation expense included in the Company's financial statements for the years ended December 31, 2005, 2004, and 2003, were as follows (amounts in thousands):

	2005	2004	2003
Selling and marketing expenses	\$ 266	\$ 198	\$ 12
General and administrative expenses	819	99	43
<b>Total stock-based compensation expense</b>	<b>\$ 1,085</b>	<b>\$ 297</b>	<b>\$ 55</b>

Although the Company files a consolidated and certain combined state tax returns with its Parent, the Company recorded income taxes payable as a result of preparing its financial statements on a separate tax return basis. Income taxes payable of \$3.0 million, \$0.4 million, and \$0.4 million for the years ended December 31, 2005, 2004, and 2003, respectively, were recognized as contributions from the Parent.

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**INFUSYSTEM, INC.**

**(A Wholly Owned Subsidiary of I-Flow Corporation)**

**Notes to Financial Statements (Continued)**

**As of December 31, 2005 and 2004, and for the years ended December 31, 2005, 2004 and 2003**

**2. Summary of Significant Accounting Policies**

***Basis of Presentation*** The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

***Cash*** As of December 31, 2005 and 2004, the Company maintains its cash primarily with a single financial institution.

***Concentrations of Credit Risk*** The Company maintains cash deposits within a single depository institution in excess of federally insured limits.

***Accounts Receivable*** The Company performs periodic analyses to evaluate its accounts receivable balances. It records an allowance for doubtful accounts based on the estimated collectibility of the accounts such that the recorded amounts reflect estimated net realizable value. Upon determination that an account is uncollectible, the account is written-off and charged to the allowance.

In determining its accounts receivable balances and allowance for doubtful accounts, management considers historical realization data, accounts receivable aging trends, operating trends, and other relevant business conditions such as governmental and managed care payor claims processing procedures and system changes. The Company's analysis includes the application of specified percentages to the accounts receivable agings to estimate the amount that will ultimately be uncollectible and, therefore, should be reserved. The percentages are increased as the accounts age. Due to the continuing changes in the health care industry and third-party reimbursement, it is possible that management's estimates could change in the near term, which could have an impact on its financial position, results of operations and cash flows.

***Inventories*** Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market. The Company records a period expense for inventory obsolescence when incurred.

***Long-Lived Assets*** The Company accounts for the impairment and disposition of long-lived assets in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets* ( SFAS 144 ). SFAS 144 addresses financial accounting and reporting for the impairment of long-lived assets and for the disposal of long-lived assets. In accordance with SFAS 144, long-lived assets to be held are reviewed for events or changes in circumstances, which indicate that their carrying value may not be recoverable. Recoverability of these assets is determined based upon the expected undiscounted future net cash flows from the operations to which the assets relate, utilizing management's best estimates, appropriate assumptions, and projections at the time. If the carrying value is determined not to be recoverable from future operating cash flows, the asset is deemed impaired and an impairment loss would be recognized to the extent the carrying value exceeded the estimated fair market value of the asset. The Company periodically reviews the carrying value of long-lived assets to determine whether an impairment to such value has occurred. The Company has determined that there was no impairment as of December 31, 2005 or 2004.

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**Table of Contents****INFUSYSTEM, INC.****(A Wholly Owned Subsidiary of I-Flow Corporation)****Notes to Financial Statements (Continued)****As of December 31, 2005 and 2004, and for the years ended December 31, 2005, 2004 and 2003**

**Property** Property is stated at cost and depreciated using the straight-line method over the estimated useful lives of the related assets, ranging from three to seven years. Rental equipment, consisting of ambulatory infusion pumps that the Company acquires from third-party manufacturers, is depreciated over five years. Leasehold improvements are amortized using the straight-line method over the life of the asset or the remaining term of the lease, whichever is shorter. Maintenance and minor repairs are charges to operations as incurred. When assets are sold, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recorded in the current period. Property consisted of the following as of December 31 (amounts in thousands):

	<b>2005</b>	<b>2004</b>
Pump equipment	\$ 20,074	\$ 13,725
Furniture, fixtures, and equipment		