

Harbor Acquisition Corp.
Form 10-K/A
May 25, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Amendment No. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-32688

HARBOR ACQUISITION CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

One Boston Place, Suite 3630

Boston, Massachusetts

(Address of principal executive offices)

56-2518836

(I.R.S. Employer Identification No.)

02108

(Zip Code)

(617) 624-8409

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Par value \$.0001 per share	American Stock Exchange
Common Stock Purchase Warrants	American Stock Exchange
Units consisting of one share of Common Stock and two Warrants	American Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained here, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K

Indicate by check mark whether the registrant is large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of June 30, 2006, the aggregate market value of the registrant's common stock held by non-affiliates was approximately \$ 55,600,000, calculated on the basis of the closing price of the registrant's common stock as reported by the American Stock Exchange on such date.

As of March 26, 2007, 16,800,000 shares of the registrant's common stock, par value \$0.001 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

EXPLANATORY NOTE

Harbor Acquisition Corporation is filing this Amendment No. 1 to its Annual Report on Form 10-K (Amended Report) to amend its Annual Report on Form 10-K for the fiscal year ended December 31, 2006 filed with the Securities and Exchange Commission on April 2, 2007 (Original Report). The Amended Report is being filed solely to correct an omission in the list of beneficial owners of our common stock set forth in Item 12 of the Original Report, to correct certain typographical errors relating to our date of incorporation in the report of independent public accountants and in certain captions in the financial statements, and to delete the word Unaudited from the statement of stockholders equity. Except for these edits, the Original Report, including the financial statements therein, is unchanged.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information regarding the beneficial ownership of our common stock as of March 26, 2007 by:

- each person known by us to be the beneficial owner of more than 5% of our outstanding shares of common stock;
- each of our officers and directors; and
- all our officers and directors as a group.

Unless otherwise indicated, we believe 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.

Name and Address of Beneficial Owner(1)	Shares Beneficially Owned(2)	% of Outstanding Common Stock
Azimuth Opportunity, Ltd.(3)	1,506,100	9.0%
The Baupost Group, LLC(3)	1,497,300	8.9%
Sapling, LLC and Fir Tree Recovery Master Fund, L.P.(3)	1,644,800	9.8%
Wellington Management Company LLP(3)	1,146,000	6.8%
Oliviera Capital, LLC(3)	875,000	5.2%
Robert J. Hanks(4)	855,000	5.1%
David A.R. Dullum(5)	855,000	5.1%
John Carson	450,000	2.6%
Todd A. Fitzpatrick	240,000	1.4%
Christopher R. Young	240,000	1.4%
Timothy J. Durkin(6)	60,000	*
William E. Mahoney	60,000	*
Edward Cady		*
All directors and officers as a group (8 individuals)(4)(5)(6)	2,730,000	16.3%

* less than one percent.

(1) Except as set forth below, the business address of each person is One Boston Place, Suite 3630, Boston, Massachusetts 02108. The address of Azimuth Opportunity, Ltd. is c/o W Smiths Finance, Nemours Chambers, P.O. Box 3170, Road Town, Tortola, British West Indies. The address of The Baupost Group, LLC is 10 St. James Avenue, Boston, Massachusetts 02116. The address of Sapling, LLC and Fir Tree Master Fund, L.P. is 535 Fifth Avenue, 31st Floor, New York, New York 10017. The address of Wellington Management Company, LLC is 75 State Street, Boston, Massachusetts 02109. The address of Oliviera Capital, LLC is 18 Fieldstone Court, New York City, New York 10956.

(2) Does not reflect the ownership of warrants purchased by certain of the initial stockholders or their affiliates in a private placement in April 2006 as described below, which are not exercisable until the later of April 25, 2007 or the date of our consummation of a business combination.

(3) Based solely upon (i) Amendment No. 1 to the report on Schedule 13G filed by Azimuth Opportunity, Ltd. with the Securities and Exchange Commission (the SEC) on or about February 14, 2007, (ii) the Form 13F filed by The Baupost Group, LLC with the SEC for the quarter ended December 31, 2006, (iii) the report on Schedule 13G filed by Sapling, LLC and Fir Tree Recovery Master Fund, L.P. with the SEC on or about February 14, 2007, (iv) the report on Schedule 13G filed by Oliviera Capital, LLC with the SEC on or about April 28, 2006, and (v) the report on Schedule 13G filed by Wellington Management Co., LLP with the SEC on or about February 14, 2007. Such reports as filed with the SEC state that, as of the dates those reports were signed, (i) Paul C. Gannon was the chief financial officer of The Baupost Group, LLC, (ii) Jeffery Tannenbaum was the president of Fir Tree, Inc., which was the manager of each of Sapling, LLC and Fir Tree Recovery Master Fund, L.P., and (iii) Steven Oliviera was the sole member of Oliviera Capital, LLC.

(4) Includes 825,000 shares held individually by Mr. Hanks and 30,000 shares held by Grand Cru Management, LLC, with respect to which Mr. Hanks possesses shared voting and dispositive power.

(5) Includes 825,000 shares held individually by Mr. Dullum and 30,000 shares held by Grand Cru Management, LLC, with respect to which Mr. Dullum possesses shared voting and dispositive power.

(6) Includes 60,000 shares held individually by Mr. Durkin. Does not include 120,000 shares held of record by Latona Associates Fund I, LLC, an investment fund of which Mr. Durkin serves as an officer of the manager.

All of the shares of our common stock outstanding prior to our initial public offering were placed in escrow with Continental Stock Transfer & Trust Company, as escrow agent, until, subject to certain limited exceptions (each of which requires that the shares remain in escrow for the required period) six months after the consummation of a liquidation, merger, stock exchange or other similar transaction which results in our public stockholders having the right to exchange their shares of common stock for cash, securities or other property subsequent to our consummating a business combination with a target business. During the escrow period, the holders of these shares will not be able to sell or transfer their securities except to their spouses and children, trusts established for their benefit, or to affiliated companies, but will retain all other rights as our stockholders, including, without limitation, the right to vote their shares of common stock (but subject, in the case of voting on a proposed business combination, to the agreement described below) and the right to receive cash dividends, if declared. If dividends are declared and payable in shares of common stock, such dividends will also be placed in escrow. If we are unable to effect a business combination and liquidate, none of our initial stockholders will receive any portion of the liquidation proceeds with respect to common stock owned by them prior to our initial public offering.

In connection with any vote required to approve any business combination, our directors, officers and those stockholders who owned shares of our common stock prior to our initial public offering have agreed to vote all of their shares, including shares that they purchased in our public offering or in the aftermarket, in accordance with the vote of the majority of the shares of common stockholders voted by the public stockholders. As described in the table above, our directors, officers and initial stockholders collectively owned as of March 26, 2007, an aggregate of 3 million shares of common stock, or 17.9% of our then total outstanding shares. All of these shares were purchased prior to our public offering and will therefore be voted on the acquisition proposal in accordance with the vote of the majority of the shares of common stock voted by the public stockholders. If the acquisition proposal is approved at the special meeting, our directors, officers and initial stockholders intend to vote all of these shares in favor of the amendment proposal and the incentive compensation plan proposal.

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Certain of our initial stockholders (or their affiliates) purchased an aggregate of 2 million warrants at a price of \$0.65 per warrant in a private placement in April 2006. These warrants may not be sold, assigned or transferred until after the date we consummate a business combination and may not be exercised until the later of April 25, 2007 or such date of consummation.

The following table sets forth the name and respective number of warrants for each of such initial stockholders:

Robert J. Hanks	230,769
David A. R. Dullum	384,616
John Carson	153,846
Todd A. Fitzpatrick	38,462
Christopher R. Young	76,923
William E. Mahoney	153,846
Latona Associates Fund I, LLC (1)	384,615
Grand Cru Management, LLC (2)	250,000
Thomas Bullock	76,923
September Morning Investments, LLC (3)	250,000

- (1) Latona Associates Fund I, LLC is an investment fund of which Timothy J. Durkin, one of our directors, serves as an officer of the manager.
- (2) Grand Cru Management, LLC is one of our initial stockholders and an affiliate of Robert J. Hanks and David A. R. Dullum.
- (3) September Morning Investments, LLC is an affiliate of Frank H. Jellinek, Jr., one of our initial stockholders, who is now deceased.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(1) Financial Statements

See Index to Consolidated Financial Statements commencing on Page F-1.

(2) Financial Statement Schedules

All supplemental schedules have been omitted since the required information is not present in amounts sufficient to require submission of the schedule, or because the required information is included in the consolidated financial statements or notes thereto.

(3) Exhibits

The following exhibits are filed as part of this Amended Report:

EXHIBIT NO.	DESCRIPTION
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14a of the Securities Exchange Act of 1934, as amended
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14a of the Securities Exchange Act of 1934, as amended
32.1	Certification pursuant to Section 908 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

HARBOR ACQUISITION CORPORATION

Date: May 25, 2007

By: /s/ ROBERT J. HANKS
Robert J. Hanks
Chief Executive Officer and Treasurer
(Principal Executive Officer)

Date: May 25, 2007

By: /s/ TODD A. FITZPATRICK
Todd A. Fitzpatrick
Vice President
(Principal Financial and Accounting Officer)

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Board of Directors
Harbor Acquisition Corporation

We have audited the accompanying balance sheet of Harbor Acquisition Corporation (a development stage corporation) (the Company) as of December 31, 2006 and 2005, and the related statements of operations, stockholders' equity and cash flows for the year ended December 31, 2006, the period from June 20, 2005 (inception) to December 31, 2005, and the cumulative period from June 20, 2005 (inception) to December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion of 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 Harbor Acquisition Corporation as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the year ended December 31, 2006, the period from June 20, 2005 (inception) to December 31, 2005, and the cumulative period from June 20, 2005 (inception) to December 31, 2006 in conformity with United States generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 15 to the financial statements, the Company may face a mandatory liquidation by November 1, 2007 if a business combination is not consummated, unless certain extension criteria are met, which raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ GOLDSTEIN GOLUB KESSLER LLP
New York, New York
March 6, 2007

Harbor Acquisition Corporation and Subsidiary
(A Development Stage Company)

Balance Sheets

	December 31, 2006	December 31, 2005
Assets		
Current:		
Cash	\$ 534,970	\$ 6,654
Investments held in trust	77,840,000	
Investments held in trust from Underwriter	1,620,000	
Investment income not subject to trust	213,364	
Prepaid Expense	66,000	
Total current assets	80,274,334	6,654
Deferred offering costs		303,509
Deferred acquisition costs	643,592	
Deferred tax asset	146,362	
Total Assets	\$ 81,064,288	\$ 310,163
Liabilities And Stockholders Equity		
Current Liabilities		
Accrued Offering Expenses	\$	\$ 210,000
Accrued Expenses	305,434	5,000
Notes Payable, Stockholders		75,000
Due to Underwriter	1,620,000	
Income Taxes Payable	111,043	
Total Liabilities	2,036,477	290,000
Common stock subject to possible conversion, 2,758,620 shares at conversion value	15,560,216	
Commitments		
Stockholders Equity		
Preferred Stock, \$.0001 par value, 1,000,000 shares authorized; none issued or outstanding		
Common Stock, \$.0001 par value, 70,000,000 shares authorized; 16,800,000 shares (which includes 2,758,620 subject to possible conversion) and 3,000,000 shares issued and outstanding at December 31, 2006 and December 31, 2005 respectively	1,680	300
Additional Paid in Capital	62,104,087	24,700
Earnings (Deficit) Accumulated during the development stage	1,361,828	(4,837)
Total Stockholders Equity	63,467,595	20,163
Total Liabilities and Stockholders Equity	\$ 81,064,288	\$ 310,163

The accompanying notes should be read in conjunction with the financial statements.

Harbor Acquisition Corporation and Subsidiary
(A Development Stage Company)

Statement of Operations

	For the year ended December 31, 2006	For the period from June 20, 2005 to December 31, 2005	For the period from June 20, 2005 (inception) to December 31, 2006 (cumulative)
Interest income	\$ 2,599,821	\$ 163	\$ 2,599,984
Operating Expenses			
General & Administrative	488,475	5,000	493,475
Net Income (Loss) before income taxes	2,111,346	(4,837)	2,106,509
Income tax expense	744,681		744,681
Net Income (Loss)	\$ 1,366,665	(\$4,837)	\$ 1,361,828
Weighted Average number of common shares outstanding basic and diluted	12,489,863	3,000,000	9,207,527
Income (Loss) per Share basic and diluted	\$ 0.11	(\$0.00)	\$ 0.15

The accompanying notes should be read in conjunction with the financial statements.

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Harbor Acquisition Corporation and Subsidiary
(A Development Stage Company)

Statement of Stockholders Equity

	Common Stock Shares	Amount	Additional Paid-in-Capital	Earnings (Deficit) Accumulated During the Development Stage	Total
Stock issued June 22, 2005 at \$.008 per share	3,000,000	\$ 300	\$ 24,700	\$	\$ 25,000
Net Loss				(4,837)	(4,837)
Balance at December 31, 2005	3,000,000	\$ 300	\$ 24,700	(\$4,837)	\$ 20,163
Sale of Private Placement Warrants			1,300,000		1,300,000
Sale of 13,800,000 Units net of underwriter's discount and offering expenses (includes 2,758,620 shares subject to possible conversion)	13,800,000	1,380	76,339,503		76,340,883
Proceeds subject to possible conversion of 2,758,620 shares			(15,560,216)		(15,560,216)
Sale of underwriter option			100		100
Net Income				1,366,665	1,366,665
Balance at December 31, 2006	16,800,000	\$ 1,680	\$ 62,104,087	\$ 1,361,828	\$ 63,467,595

The accompanying notes should be read in conjunction with the financial statements.

Harbor Acquisition Corporation and Subsidiary
(A Development Stage Company)

Statement of Cash Flows

	For the year ended December 31, 2006	June 20, 2005 (inception) to December 31, 2005	For the period from June 20, 2005 (inception) to December 31, 2006 (cumulative)
Cash Flows From Operating Activities			
Net Income (Loss)	\$ 1,366,665	(\$4,837)	\$ 1,361,828
Adjustment to reconcile net income to net cash provided by operating activities:			
Income taxes payable	111,043		111,043
Changes in operating assets and liabilities:			
Increase in prepaid expenses	(66,000)		(66,000)
Increase in value of investments held in trust	(2,592,864)		(2,592,864)
Increase in Deferred tax asset	(146,362)		(146,362)
Increase in Accrued expenses	95,860	5,000	100,860
Net Cash provided by Operating Activities	(1,231,658)	163	(1,231,495)
Cash Flows From Investing Activities			
Payment of deferred acquisition costs	\$ (439,018)		\$ (439,018)
Cash held in Trust Account	(79,460,000)		(79,460,000)
Disbursements from trust	2,379,500		2,379,500
Net Cash used in Investing Activities	(77,519,518)		(77,519,518)
Cash Flows From Financing Activities			
Proceeds from public offering	82,800,000		82,800,000
Proceeds from private placement of warrants	1,300,000		1,300,000
Proceeds from issuance of underwriting option	100		100
Proceeds from sale of stock		25,000	25,000
Proceeds from notes payable, Stockholders	150,000	75,000	225,000
Payments of notes payable, Stockholders	(225,000)		(225,000)
Payment of advances due to Stockholders	(5,000)		(5,000)
Payment of offering costs	(4,740,608)	(93,509)	(4,834,117)
Net Cash provided by Financing Activities	79,279,492	6,491	79,285,983
Net increase in Cash	528,316	6,654	534,970
Cash at beginning of period	6,654		
Cash at end of period	\$ 534,970	\$ 6,654	\$ 534,970
Supplemental schedule of non-cash financing activities:			
Advance due to Stockholder for Public Offering costs	\$ 5,000		\$ 5,000
Accrual of deferred underwriting fees	\$ 1,620,000		\$ 1,620,000
Supplemental schedule of non-cash investing activities:			
Accrual of deferred acquisition costs	\$ 204,574		\$ 204,574

The accompanying notes should be read in conjunction with the financial statements.

**Harbor Acquisition Corporation and Subsidiary
(A Development Stage Company)**

Notes to Consolidated Financial Statements

1. Basis of Presentation

The consolidated financial statements include the accounts of Harbor Acquisition Corporation and its wholly owned subsidiary Harbor Acquisition Security Corporation (collectively referred to as the Company). All significant intercompany transactions and balances have been eliminated. The statements and related notes have been prepared on the accrual basis of accounting in accordance with accounting principals generally accepted in the United States.

2. Organization and Business Operations

The Company was incorporated in Delaware on June 20, 2005 as a blank check company whose objective is to acquire an operating business. At December 31, 2006, the Company had neither engaged in any operations nor generated significant operating revenue to date. The Company is considered to be in the development stage and is subject to the risks associated with activities of development stage companies.

All activity through December 31, 2006, relates to the Company's formation, its initial public offering described below, and thereafter, pursuing potential acquisitions of target businesses.

The registration statement for the Company's initial public offering (the Public Offering) (as described in Note 4) was declared effective April 25, 2006. The Company consummated the Public Offering on May 1, 2006, and preceding the consummation of the Public Offering on May 1, 2006 certain officers, directors, and initial shareholders of the Company purchased an aggregate of 2,000,000 warrants at \$.65 per warrant from the Company in a private placement (the Private Placement). The warrants sold in the Private Placement were identical to the warrants sold in the offering. The Company received net proceeds from the Private Placement and the Offering of approximately \$77,640,883 (Note 4).

The Company's management has broad discretion with respect to the specific application of the net proceeds of this Public Offering, although substantially all of the net proceeds of this Public Offering are intended to be generally applied toward consummating a business combination with an operating business (Business Combination), which may not constitute a business combination for accounting purposes.

Furthermore, there is no assurance that the Company will be able to successfully effect a Business Combination. Upon the closing of the Offering, \$79,460,000 including \$1,620,000 of deferred underwriters' nonaccountable expense allowance described in Note 4, is being held in a trust account (Trust Fund) and, commencing May 2, 2006, is invested in government securities until the earlier of (i) the consummation of its first Business Combination and (ii) the distribution of the Trust Fund as described below. The placing of funds in the Trust Fund may not protect those funds from third party claims against the Company. Although the Company will seek to have all vendors, prospective target businesses or other persons it engages, execute agreements with the Company waiving any right, title, interest or claim of any kind in or to any monies held in the Trust Fund, there is no guarantee that they will execute such agreements. Certain of the Company's directors have severally agreed that they will be personally liable under certain circumstances to ensure that the proceeds in the Trust Fund are not reduced by the claims of target businesses or vendors or other persons that are owed money by the Company for services rendered, contracted for or products sold to the Company. However, there can be no assurance that the directors will be able to satisfy those obligations. The remaining proceeds (not held in the Trust Fund), along with interest earned on the Trust Fund, may be used to pay for business, legal and 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 issued in the Offering vote against the Business Combination and exercise their conversion rights described below, the Business Combination will not be consummated. All of the Company's stockholders prior to the Offering, including all of the officers and directors of the Company (Initial Stockholders), have agreed to vote their 3,000,000 founding shares of common stock, as well as any shares of common stock acquired in connection with or following the Offering, 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. After consummation of a Business Combination, these voting safeguards will no longer be applicable.

With respect to a Business Combination which is approved and consummated, any Public Stockholder who voted against the Business Combination may demand that the Company convert his or her shares. The per share conversion price will equal the amount in the Trust Account, calculated as of two business days prior to the consummation of the proposed Business Combination, divided by the number of shares of common stock sold in the Offering. Accordingly, Public Stockholders holding 19.99% of the aggregate number of shares owned by all Public Stockholders may seek conversion of their shares in the event of a Business Combination. Such Public Stockholders are entitled to receive their per share interest in the Trust Fund computed without regard to the shares held by Initial Stockholders. Accordingly, a portion of the net proceeds from the Public Offering (19.99% of the amount held in the Trust Fund, excluding the deferred portion of the underwriters non-accountable expense allowance) has been classified as common stock subject to possible conversion on the accompanying December 31, 2006 balance sheet. In addition, such stockholders would also be entitled to a portion of the deferred portion of the underwriters non-accountable expense allowance held in trust (see Note 4). As of December 31, 2006, the estimated per share conversion price is \$5.76.

The Company's 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 Offering, or 24 months from the consummation of the 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 Fund assets) will be less than the initial public offering price per share in the Offering (assuming no value is attributed to the Warrants contained in the Units sold in the Offering discussed in Note 4).

On May 1, 2006, the Company formed a wholly owned subsidiary, Harbor Acquisition Security Corporation, for tax planning purposes. The Company assigned the rights to the investments in the Trust Fund to this subsidiary.

On October 17, 2006, the Company entered into a Stock Purchase Agreement with Elmet Technologies, Inc (Elmet) and the holders of all of the outstanding shares and warrants of Elmet. Subject to the terms and conditions of the Stock Purchase Agreement, the Company has agreed to acquire all of the outstanding Elmet shares and all of its outstanding warrants. The acquisition is expected to be consummated during the second quarter of 2007, after the required approval by the Company's stockholders and the fulfillment of certain other conditions. The pending transaction is further described in the Company's current report filed with the U.S. Securities and Exchange Commission on Form 8-K on October 17, 2006.

3. Summary of Significant Accounting Policies

A. Income taxes:

Deferred income tax assets and liabilities are computed for differences between the financial statement and tax basis of assets and liabilities that will result in future taxable or deductible amounts and are based on enacted tax laws and rates applicable to the periods in which the differences are expected to

affect taxable income. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount expected to be realized.

B. Earnings (Loss) per common share:

Basic earnings per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share gives effect to dilutive options, warrants, and other potential common stock outstanding during the period. The effect of the 27,600,000 outstanding warrants issued in connection with the initial public offering described in Note 4 has not been considered in the diluted net income per share since the warrants are contingently exercisable. The effect of the 600,000 units included in the underwriters' purchase option, as described in Note 2, along with the warrants underlying such units, has not been considered in the diluted earnings per share calculation since they are contingently exercisable and since the market price of the option was less than the exercise price during the period.

C. 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

D. Cash and Cash Equivalents:

For financial statement purposes, the Company considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents. The Company maintains its cash in bank deposit accounts in the United States of America which, at times, may exceed applicable insurance limits. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

E. Recent Accounting Pronouncements:

In July 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 position. A tax benefit from an uncertain position may be recognized only if it is more than likely not that the position is sustainable based 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 financial condition or results of operations.

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.

4. Initial Public Offering

On May 1, 2006, the Company sold 13,800,000 units (Units), including 1,800,000 in connection with the Underwriter's over-allotment, in the Public Offering 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 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 Public Offering and expiring five years from the effective date of the Public Offering. The Company may redeem the Warrants at a price of \$.01 per Warrant upon 30 days' notice after the Warrants become exercisable, only in the event that the last sale price of the common stock is at least \$8.50 per share for any 20 trading days within a 30 trading day period.

ending on the third day prior to the date on which notice of redemption is given. If the Company calls the Warrants, the holder will either have to redeem the Warrants by purchasing the common stock from the Company for \$5.00 per share or allow the Company to redeem the Warrants at a price of \$.01 per warrant.

In connection with the Offering, the Company paid the underwriters of the Public Offering (collectively, the Underwriter) an underwriting discount of 5.0% of the gross proceeds of the Public Offering (\$4,140,000). In addition, a non-accountable expense allowance of 2.25% of the gross proceeds of the Public Offering, excluding the over-allotment option, is due to the Underwriter, who has agreed to deposit the non-accountable expense allowance (\$1,620,000) into the Trust Fund until the earlier of the completion of a business combination or the liquidation of the Trust Fund. The Underwriter has further agreed to forfeit any rights to or claims against such proceeds unless the Company successfully completes a business combination. If a Business Combination is approved and completed, public stockholders who voted against the combination and have exercised their conversion rights will be entitled to their pro rata share of the deferred non-accountable expense allowance.

Preceding the consummation of the Public Offering on May 1, 2006, certain of the initial stockholders purchased 2,000,000 warrants at a purchase price of \$.65 per warrant in a private placement. The proceeds of \$1,300,000 were deposited into the Trust Fund, and the initial stockholders will not have any claim on this amount if the Trust Fund is liquidated.

The Initial Stockholders are entitled to registration rights with respect to their founding shares and private placement warrants pursuant to agreements dated April 25, 2006. The holders of the majority of these shares and warrants are entitled to make up to two demands that the Company register these shares. In addition, the Initial Stockholders have piggy-back registration rights on certain registration statements filed subsequent to the consummation of a Business Combination.

In connection with this Offering, the Company issued an option, for \$100, to the Underwriter to purchase 600,000 Units at an exercise price of \$7.50 per Unit, exercisable on the later of April 25, 2007 or the consummation of a Business Combination. The option has a life of five years from the effective date. The Units that would be issued upon exercise of this option are identical to those offered in the Public Offering, except that each of the warrants underlying the option entitles the holder to purchase one share of the Company's common stock at a price of \$6.25 and will have a cashless exercise provision. The Company has accounted for the fair value of the option, inclusive of the receipt of the \$100 cash payment, as an expense of the Public Offering resulting in a charge directly to stockholder's equity. The Company estimated, using the Black-Scholes method, the fair value of the option granted to the underwriter as of the date of grant was approximately \$1,516,000 using the following assumptions: (1) expected volatility of 49.3%, (2) risk-free interest rate of 4.635% and (3) expected life of five years. In order to estimate the volatility, the Company considered the historic volatilities of 22 publicly traded companies that operate within the consumer and industrial products sectors.

5. Limited Distributions of Income from Trust Account

Upon written request from the Company, which may be given not more than once in any calendar month, the Trustee shall distribute to the Company by wire transfer an amount computed and certified by the Company to be equal to the collected and undistributed income earned on the original amount deposited in the Trust Account for the preceding month. The maximum amount of distributions, net of taxes, that the Company may request and the Trustee shall distribute is \$1,850,000. The Company has received distributions, net of taxes, of \$1,599,500 through December 31, 2006. These funds will be used for working capital purposes associated with identifying and consummating a Business Combination.

If there is any income tax obligation relating to the income of the property in the Trust Account, then, at the written instruction of the Company, the Trustee shall disburse to the Company by wire transfer, out

of the property in the Trust Account, the amount indicated by the Company as required to pay income taxes. Such disbursements amounted to \$780,000 through December 31, 2006.

6. Deferred Offering Costs

Deferred offering costs consisted of legal, accounting, printing, and other fees incurred prior to the Offering which were directly related the Offering. These costs were charged to Stockholders' equity upon completion of the Offering.

7. Deferred Acquisition Costs

Deferred acquisition costs consist principally of legal fees directly associated with the negotiation and execution of the Stock Purchase Agreement with Elmet Technologies Inc. These costs will be treated as part of the purchase price upon the closing of the transaction.

8. Income Taxes

The components of the provision for income taxes are as follows:

	Year ended December 31, 2006	Year ended December 31, 2005
Current:		
Federal	\$ 850,400	
State and local	40,643	
Deferred:		
Federal	(146,362)	
State and local		
Total provision for income taxes	\$ 744,681	

The Company's effective tax rate differs from the effective federal tax rate of 34% principally due to the following:

	Year ended December 31, 2006
Federal statutory rate	34.0%
State and local tax	0.1%
Change in valuation allowance	1.2%
	35.3%

	Year ended December 31, 2005
Federal statutory rate	34.0%
Increase in valuation allowance	(34.0%)

The tax effect of temporary differences that give rise to the deferred tax asset is as follows:

	December 31, 2006	December 31, 2005
Expenses deferred for income tax purposes	\$ 172,508	\$ 2,000
Less valuation allowance	(26,146)	(\$2,000)
Total	\$ 146,362	\$ 0

9. Note Payable, Stockholders

The Company issued an aggregate of \$75,000 unsecured promissory notes to two of its Initial Stockholders on June 22, 2005. The notes were non-interest bearing and were payable on the earlier of June 15, 2006 or the consummation of the Public Offering. Accordingly, the Company paid off the notes on May 1, 2006. Separately, upon the consummation of the Offering, a shareholder loaned the Company \$150,000. The loan with related interest was paid in full on July 5, 2006. The loan bore interest at 4% per annum and was paid from the interest earned on the amounts in the Trust Fund. Due to the short term nature of the notes, the fair value of the notes approximated their carrying amount.

10. Commitments and Related Party Transactions

The Company presently occupies office space provided by an affiliate of several of the Initial Stockholders. Such affiliate has agreed that, until the Company consummates a Business Combination, it will make such office space, as well as certain office and secretarial services, available to the Company, as may be required by the Company from time to time. The Company has agreed to pay such affiliate \$7,500 per month for such services commencing on the effective date of the Public Offering. The statement of operations includes \$61,700 for the year ended December 31, 2006.

Pursuant to letter agreements dated June 22, 2005 with the Company and the representative of the underwriters, the Initial Stockholders have waived their right to receive distributions with respect to their founding shares upon the Company's liquidation.

11. Common Stock

On April 14, 2006, the Company's majority stockholders approved an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares of common stock to 70,000,000. All references in the accompanying financial statements to the number of shares of stock have been retroactively restated to reflect this transaction.

On April 20, 2006, the Board of Directors approved a stock split to be effected as a stock dividend immediately prior to the closing of the Public Offering. The stock split was executed, and a stock dividend of one share for every 5 shares was issued to the initial stockholders.

12. Preferred Stock

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.

13. Reserved Common Stock

At December 31, 2006, 31,400,000 shares of common stock were reserved for issuance upon exercise of redeemable warrants and the underwriter's purchase option.

14. Trust Fund

For tax planning purposes, the Company assigned its rights to the cash in the Trust Fund to Harbor Acquisition Security Corporation, a wholly-owned Massachusetts subsidiary qualifying as a security corporation entitled to a reduced state corporate tax rate.

15. Going Concern

The Company has not commenced any operations as of December 31, 2006, but has entered into a Stock Purchase Agreement with Elmet Technologies, Inc (Elmet) and the holders of all the outstanding shares and warrants of Elmet (see Note 2). This proposed acquisition would fulfill the conditions of a Business Combination required to release the funds held in the Trust Account to the Company (see Note

4). If this Business Combination is not completed, the Company intends to immediately resume the search for another suitable Business Combination; however, there is no assurance that such a suitable Business Combination would be identified and consummated within the requisite time periods. In the event one is not, the Company would be required to distribute the funds held in the Trust Account to the Public Stockholders.

Management believes that the Company's existing cash resources, including cash on hand, will be sufficient to cover operating costs and expenses until the proposed acquisition is consummated. However, the Company would be required to obtain additional financing to continue its search for another suitable Business Combination and continue as a going concern if the proposed acquisition is not consummated.

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