

SEAWRIGHT HOLDINGS INC  
Form 10QSB  
May 21, 2007

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED  
MARCH 31, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM  
\_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER: 333-56848

SEAWRIGHT HOLDINGS, INC  
(Exact name of Company as specified in its charter)

Delaware  
(State or jurisdiction of incorporation organization)

54-1965220  
(I.R.S. Employer or Identification No.)

600 Cameron Street, Alexandria, VA  
(Address of principal executive offices)

22314  
(Zip Code)

Company's telephone number: (703) 340-1629

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common  
Stock, \$0.001 Par Value

Indicate by check mark whether the Company (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Company was required to file such reports), and (2) been subject to such filing requirements for the past 90 days. Yes  No \_\_\_

Indicate the number of shares outstanding of each of the issuer's class of common stock. The Registrant had 10,402,432 shares of its common stock outstanding as of May 21, 2007.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED).

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**SEAWRIGHT HOLDINGS, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONDENSED CONSOLIDATED BALANCE SHEET**

|                                                                                                                                           |    | March 31, 2007<br>(Unaudited) |
|-------------------------------------------------------------------------------------------------------------------------------------------|----|-------------------------------|
| <b>ASSETS</b>                                                                                                                             |    |                               |
| Current assets:                                                                                                                           |    |                               |
| Cash and cash equivalent                                                                                                                  | \$ | 475                           |
| Marketable securities (Note B)                                                                                                            |    | 19,669                        |
| Financing costs, net - current portion                                                                                                    |    | 281,610                       |
| Deposits                                                                                                                                  |    | 65,300                        |
| Total current assets                                                                                                                      |    | 367,054                       |
| Property and equipment:                                                                                                                   |    |                               |
| Land                                                                                                                                      |    | 1,965,000                     |
| Equipment                                                                                                                                 |    | 32,167                        |
| Building                                                                                                                                  |    | 75,800                        |
| Building improvement                                                                                                                      |    | 75,396                        |
|                                                                                                                                           |    | 2,148,364                     |
| Less: accumulated depreciation                                                                                                            |    | 6,429                         |
| Total property and equipment                                                                                                              |    | 2,141,934                     |
| Other assets:                                                                                                                             |    |                               |
| Financing costs, net - less current portion                                                                                               |    | 191,597                       |
| Intangible asset - net                                                                                                                    |    | 25,390                        |
| Total other assets                                                                                                                        |    | 216,987                       |
| Total assets                                                                                                                              | \$ | 2,725,975                     |
| <b>LIABILITIES AND (DEFICIENCY IN) STOCKHOLDERS' EQUITY</b>                                                                               |    |                               |
| Current liabilities:                                                                                                                      |    |                               |
| Cash disbursed in excess of available funds                                                                                               | \$ | 24,091                        |
| Accounts payable and accrued liabilities                                                                                                  |    | 391,289                       |
| Due to related party (Note H)                                                                                                             |    | 154,988                       |
| Notes payable - current portion (Note C)                                                                                                  |    | 1,502,370                     |
| Total current liabilities                                                                                                                 |    | 2,072,738                     |
| Convertible notes payable, net of debt discount (Note D)                                                                                  |    | 1,218,044                     |
| Notes payable - less current portion (Note C)                                                                                             |    | 518,021                       |
| Other long-term liabilities                                                                                                               |    | 35,141                        |
| Total liabilities                                                                                                                         |    | 3,843,944                     |
| <b>(DEFICIENCY IN) STOCKHOLDERS' EQUITY</b>                                                                                               |    |                               |
| Preferred stock, par value \$.001 per share; 100,000 shares authorized: (Note E)                                                          |    |                               |
| Series A Convertible Preferred stock, par value \$.001 per share; 60,000 shares authorized; none issued and outstanding at March 31, 2007 |    | -                             |
|                                                                                                                                           |    | 9,374                         |

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|                                                                                                                                            |    |             |
|--------------------------------------------------------------------------------------------------------------------------------------------|----|-------------|
| Common stock, par value \$.001 per share; 19,900,000 shares authorized; 9,374,084 shares issued and outstanding at March 31, 2007 (Note E) |    |             |
| Additional paid-in-capital                                                                                                                 |    | 3,357,819   |
| Preferred stock dividend                                                                                                                   |    | (25,000)    |
| Accumulated deficit                                                                                                                        |    | (4,460,162) |
| (Deficiency in) Stockholders' equity                                                                                                       |    | (1,117,969) |
| Total liabilities and (deficiency in) stockholders' equity                                                                                 | \$ | 2,725,975   |

See accompanying notes to unaudited condensed consolidated financial information

**SEAWRIGHT HOLDINGS, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

|                                                                                 | For the three months ended March 31, |              | For the Period<br>from<br>October 14, 1999<br>(date of inception)<br>through<br>March 31, 2007 |
|---------------------------------------------------------------------------------|--------------------------------------|--------------|------------------------------------------------------------------------------------------------|
|                                                                                 | 2007                                 | 2006         |                                                                                                |
| Revenue, net                                                                    | \$ 309                               | \$ 590       | \$ 6,137                                                                                       |
| Gross profit                                                                    | 309                                  | 590          | 6,137                                                                                          |
| Costs and expenses:                                                             |                                      |              |                                                                                                |
| Selling, general and administrative                                             | 412,183                              | 227,552      | 4,285,975                                                                                      |
| (Gain) on trading securities (Note B)                                           | -                                    | (200)        | (37,356)                                                                                       |
| Depreciation expenses                                                           | 703                                  | 658          | 18,148                                                                                         |
| Total operating expense                                                         | 412,886                              | 228,010      | 4,266,767                                                                                      |
| Loss from operations                                                            | (412,577)                            | (227,420)    | (4,260,630)                                                                                    |
| Other income (expenses):                                                        |                                      |              |                                                                                                |
| Other income, net                                                               | -                                    | -            | 61,969                                                                                         |
| Gain on early extinguishment of debt                                            | -                                    | -            | 807,103                                                                                        |
| Interest expense, net                                                           | (248,015)                            | (79,375)     | (1,085,506)                                                                                    |
|                                                                                 | (248,015)                            | (79,375)     | (216,434)                                                                                      |
| Loss from continuing operations before income taxes and discontinued operations | (660,592)                            | (306,795)    | (4,477,064)                                                                                    |
| Provision for income tax                                                        | -                                    | -            | -                                                                                              |
| Loss from continuing operations before discontinued operations                  | (660,592)                            | (306,795)    | (4,477,064)                                                                                    |
| Income from discontinued operations                                             | -                                    | -            | 16,901                                                                                         |
| Net loss                                                                        | (660,592)                            | (306,795)    | (4,460,163)                                                                                    |
| Preferred stock dividend                                                        | -                                    | -            | (25,000)                                                                                       |
| Net loss attributable to common shareholders                                    | \$ (660,592)                         | \$ (306,795) | \$ (4,485,163)                                                                                 |
| Losses per common share (basic and assuming dilution)                           | \$ (0.07)                            | \$ (0.03)    |                                                                                                |
| Weighted average common shares outstanding                                      | 9,200,499                            | 8,875,476    |                                                                                                |

See accompanying notes to unaudited condensed consolidated financial information



**SEAWRIGHT HOLDINGS, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF (DEFICIENCY IN) STOCKHOLDERS'**  
**EQUITY**  
**FOR THE PERIOD OCTOBER 14, 1999 (DATE OF INCEPTION) TO MARCH 31, 2007**

|                                                                                                          | Preferred<br>Preferred<br>Shares | Stock<br>Amount | Common<br>Shares | Common<br>Stock<br>Amount | Additional<br>Paid-in<br>Capital | Common<br>Stock<br>Subscriptions | Preferred<br>Stock<br>Dividend | Deficit<br>Accumulated<br>During<br>Development<br>Stage | Total      |
|----------------------------------------------------------------------------------------------------------|----------------------------------|-----------------|------------------|---------------------------|----------------------------------|----------------------------------|--------------------------------|----------------------------------------------------------|------------|
| Net loss                                                                                                 | -                                | \$ -            | -                | \$ -                      | \$ -                             | \$ -                             | \$ -                           | \$ (1,291)                                               | \$ (1,291) |
| <b>Balance at December 31, 1999</b>                                                                      | -                                | -               | -                | -                         | -                                | -                                | -                              | (1,291)                                                  | (1,291)    |
| Common stock issued on September 30, 2000 in exchange for convertible debt at \$.50 per share            | -                                | -               | 78,000           | 78                        | 38,922                           | -                                | -                              | -                                                        | 39,000     |
| Common stock issued on November 27, 2000 in exchange for convertible debt at \$.50 per share             | -                                | -               | 26,000           | 26                        | 12,974                           | -                                | -                              | -                                                        | 13,000     |
| Net loss                                                                                                 | -                                | -               | -                | -                         | -                                | -                                | -                              | (157,734)                                                | (157,734)  |
| <b>Balance at December 31, 2000</b>                                                                      | -                                | -               | 104,000          | 104                       | 51,896                           | -                                | -                              | (159,025)                                                | (107,025)  |
| Common stock issued on January 1, 2001 in exchange for convertible debt at \$.50 per share               | -                                | -               | 174,000          | 174                       | 86,826                           | -                                | -                              | -                                                        | 87,000     |
| Common stock issued on January 2, 2001 to founders in exchange for services rendered at \$.001 per share | -                                | -               | 5,000,000        | 5,000                     | 20                               | -                                | -                              | -                                                        | 5,020      |
| Common stock issued on January 2, 2001 in exchange for services rendered at \$.50 per share              | -                                | -               | 90,000           | 90                        | 44,910                           | -                                | -                              | -                                                        | 45,000     |



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|                                     |      |   |              |          |            |      |      |             |           |
|-------------------------------------|------|---|--------------|----------|------------|------|------|-------------|-----------|
| Net loss                            | -    | - | -            | -        | -          | -    | -    | (556,921)   | (556,921) |
| <b>Balance at December 31, 2001</b> | -    | - | 5,368,000    | 5,368    | 183,652    | -    | -    | (715,946)   | (526,926) |
| Net loss                            |      |   |              |          |            |      |      | (357,588)   | (357,588) |
| <b>Balance at December 31, 2002</b> | - \$ | - | 5,368,000 \$ | 5,368 \$ | 183,652 \$ | - \$ | - \$ | (1,073,534) | (884,514) |

See accompanying notes to unaudited condensed consolidated financial information

**SEAWRIGHT HOLDINGS, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF (DEFICIENCY IN) STOCKHOLDERS'**  
**EQUITY (CONTINUED)**  
**FOR THE PERIOD OCTOBER 14, 1999 (DATE OF INCEPTION) TO MARCH 31, 2007**

|                                                                                                       | Preferred<br>Shares | Preferred<br>Stock<br>Amount | Common<br>Shares | Common<br>Stock<br>Amount | Additional<br>Paid-in<br>Capital | Common<br>Stock<br>Subscription | Preferred<br>Stock<br>Dividend | Deficit<br>Accumulated<br>During<br>Development<br>Stage | Total        |
|-------------------------------------------------------------------------------------------------------|---------------------|------------------------------|------------------|---------------------------|----------------------------------|---------------------------------|--------------------------------|----------------------------------------------------------|--------------|
| <b>Balance at<br/>December 31,<br/>2002</b>                                                           |                     | - \$                         | -                | 5,368,000 \$              | 5,368 \$                         | 183,652 \$                      | - \$                           | - \$ (1,073,534)                                         | \$ (884,514) |
| Preferred stock<br>issued in exchange<br>for cash at \$5 per<br>share                                 | 55,000              | 55                           | -                | -                         | 274,945                          | -                               | -                              | -                                                        | 275,000      |
| Stock options<br>issued in exchange<br>for<br>services rendered                                       | -                   | -                            | -                | -                         | 5,276                            | -                               | -                              | -                                                        | 5,276        |
| Net income                                                                                            | -                   | -                            | -                | -                         | -                                | -                               | -                              | 506,846                                                  | 506,846      |
| <b>Balance at<br/>December 31,<br/>2003</b>                                                           | 55,000              | \$ 55                        | 5,368,000        | \$ 5,368                  | \$ 463,873                       | \$ -                            | \$ -                           | \$ (566,688)                                             | \$ (97,392)  |
| Preferred stock<br>cancelled in<br>exchange<br>for stock options<br>exercised at<br>\$.5625 per share | (5,000)             | (5)                          | 160,000          | 160                       | 64,845                           | -                               | -                              | -                                                        | 65,000       |
| Common stock<br>issued on April 8,<br>2004<br>in exchange for<br>cash at \$.30 per<br>share           | -                   | -                            | 300,000          | 300                       | 89,700                           | -                               | -                              | -                                                        | 90,000       |
| Common stock<br>issued and<br>subscribed<br>in connection with<br>private placement                   | -                   | -                            | 2,404,978        | 2,405                     | 1,359,491                        | 25,581                          | -                              | -                                                        | 1,387,477    |
| Conversion of<br>preferred stock to<br>common stock                                                   | (50,000)            | (50)                         | 500,000          | 500                       | (450)                            | -                               | -                              | -                                                        | -            |

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|                                                                        |   |      |           |          |              |           |             |              |              |
|------------------------------------------------------------------------|---|------|-----------|----------|--------------|-----------|-------------|--------------|--------------|
| Preferred stock dividend                                               | - | -    | 50,000    | 50       | 24,950       | -         | (25,000)    | -            | -            |
| Warrants issued to consultants in exchange for services rendered       | - | -    | -         | -        | 545,460      | -         | -           | -            | 545,460      |
| Beneficial conversion feature of convertible debentures                | - | -    | -         | -        | 274,499      | -         | -           | -            | 274,499      |
| Value of warrants attached to convertible debentures                   | - | -    | -         | -        | 187,123      | -         | -           | -            | 187,123      |
| Return of contributed capital to shareholder                           | - | -    | -         | -        | (144,006)    | -         | -           | -            | (144,006)    |
| Reclassification of equity to liability upon issuance of put agreement | - | -    | -         | -        | (90,000)     | -         | -           | -            | (90,000)     |
| Net loss, as restated                                                  | - | -    | -         | -        | -            | -         | -           | (331,449)    | (331,449)    |
| <b>Balance at December 31, 2004</b>                                    | - | \$ - | 8,782,978 | \$ 8,783 | \$ 2,775,485 | \$ 25,581 | \$ (25,000) | \$ (898,137) | \$ 1,886,712 |

See accompanying notes to unaudited condensed consolidated financial information

**SEAWRIGHT HOLDINGS, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF (DEFICIENCY IN) STOCKHOLDERS'**  
**EQUITY (CONTINUED)**  
**FOR THE PERIOD OCTOBER 14, 1999 (DATE OF INCEPTION) TO MARCH 31, 2007**

|                                                                                                                       | Preferred<br>Stock<br>Shares | Preferred<br>Stock<br>Amount | Common<br>Shares | Common<br>Stock<br>Amount | Additional<br>Paid-in<br>Capital | Common<br>Stock<br>Subscription | Preferred<br>Stock<br>Dividend | Deficit<br>Accumulated<br>During<br>Development<br>Stage | Total        |
|-----------------------------------------------------------------------------------------------------------------------|------------------------------|------------------------------|------------------|---------------------------|----------------------------------|---------------------------------|--------------------------------|----------------------------------------------------------|--------------|
| <b>Balance at<br/>December 31,<br/>2004</b>                                                                           | -                            | \$ -                         | 8,782,978        | \$ 8,783                  | \$ 2,775,485                     | \$ 25,581                       | \$ (25,000)                    | \$ (898,137)                                             | \$ 1,886,712 |
| Common stock<br>issued in<br>connection<br>with common<br>stock subscribed in<br>connection with<br>private placement | -                            | -                            | 54,998           | 55                        | 25,526                           | (25,581)                        | -                              | -                                                        | -            |
| Common stock<br>issued in<br>connection<br>with private<br>placement                                                  | -                            | -                            | 37,500           | 38                        | 25,150                           | -                               | -                              | -                                                        | 25,188       |
| Fractional share -<br>return of proceeds<br>Beneficial<br>conversion feature<br>of<br>convertible<br>debentures       | -                            | -                            | -                | -                         | (13)                             | -                               | -                              | -                                                        | (13)         |
| Value of warrants<br>attached to<br>convertible<br>debentures                                                         | -                            | -                            | -                | -                         | 5,708                            | -                               | -                              | -                                                        | 5,708        |
| Expiration of put<br>agreement                                                                                        | -                            | -                            | -                | -                         | 90,000                           | -                               | -                              | -                                                        | 90,000       |
| Contributed capital                                                                                                   | -                            | -                            | -                | -                         | 89,500                           | -                               | -                              | -                                                        | 89,500       |
| Net loss, as<br>restated                                                                                              | -                            | -                            | -                | -                         | -                                | -                               | -                              | (1,116,048)                                              | (1,116,048)  |
|                                                                                                                       | -                            | -                            | 8,875,476        | 8,876                     | 3,014,376                        | -                               | (25,000)                       | (2,014,185)                                              | 984,067      |

**Balance at  
December 31,  
2005**Common stock  
issued on May 1,  
2006 in exchange  
for cash at  
\$0.45 per share

|   |   |         |     |        |   |   |   |        |
|---|---|---------|-----|--------|---|---|---|--------|
| - | - | 199,998 | 200 | 89,800 | - | - | - | 90,000 |
|---|---|---------|-----|--------|---|---|---|--------|

Contributed capital

|   |   |   |   |        |   |   |   |        |
|---|---|---|---|--------|---|---|---|--------|
| - | - | - | - | 54,505 | - | - | - | 54,505 |
|---|---|---|---|--------|---|---|---|--------|

Stock options  
issued on  
September 1, 2006  
in exchange  
for cash at \$0.45  
per share

|   |   |   |   |        |   |   |   |        |
|---|---|---|---|--------|---|---|---|--------|
| - | - | - | - | 38,490 | - | - | - | 38,490 |
|---|---|---|---|--------|---|---|---|--------|

Common stock  
issued on  
September 1, 2006  
in exchange  
for cash at \$0.45  
per share

|   |   |        |    |       |   |   |   |       |
|---|---|--------|----|-------|---|---|---|-------|
| - | - | 20,000 | 20 | 8,980 | - | - | - | 9,000 |
|---|---|--------|----|-------|---|---|---|-------|

Return of  
contributed capital  
to  
shareholder

|   |   |   |   |          |   |   |   |          |
|---|---|---|---|----------|---|---|---|----------|
| - | - | - | - | (42,951) | - | - | - | (42,951) |
|---|---|---|---|----------|---|---|---|----------|

Reacquisition and  
cancellation of  
shares

|   |   |           |       |          |   |   |   |          |
|---|---|-----------|-------|----------|---|---|---|----------|
| - | - | (160,000) | (160) | (81,440) | - | - | - | (81,600) |
|---|---|-----------|-------|----------|---|---|---|----------|

Net loss

|   |   |   |   |   |   |   |             |             |
|---|---|---|---|---|---|---|-------------|-------------|
| - | - | - | - | - | - | - | (1,785,386) | (1,785,386) |
|---|---|---|---|---|---|---|-------------|-------------|

**Balance at  
December 31,  
2006**

|   |   |           |       |           |   |          |             |           |
|---|---|-----------|-------|-----------|---|----------|-------------|-----------|
| - | - | 8,935,474 | 8,936 | 3,081,760 | - | (25,000) | (3,799,571) | (733,875) |
|---|---|-----------|-------|-----------|---|----------|-------------|-----------|

Common stock  
issued in  
connection  
with put  
agreements

|   |   |         |     |         |   |   |   |         |
|---|---|---------|-----|---------|---|---|---|---------|
| - | - | 187,710 | 188 | 105,093 | - | - | - | 105,281 |
|---|---|---------|-----|---------|---|---|---|---------|

Commons stock  
issued in  
connection

|   |   |     |   |     |   |   |   |     |
|---|---|-----|---|-----|---|---|---|-----|
| - | - | 900 | 1 | 764 | - | - | - | 765 |
|---|---|-----|---|-----|---|---|---|-----|

with exercise of  
warrants

Common stock  
issued in  
connection  
with financing  
incentive

Contributed capital

Net loss

**Balance at March  
31, 2007**

|   |      |           |          |              |      |             |                |                |
|---|------|-----------|----------|--------------|------|-------------|----------------|----------------|
| - | -    | 250,000   | 250      | 127,250      | -    | -           | -              | 127,500        |
| - | -    | -         | -        | 42,951       | -    | -           | -              | 42,951         |
| - | -    | -         | -        | -            | -    | -           | (660,592)      | (660,592)      |
| - | \$ - | 9,374,084 | \$ 9,375 | \$ 3,357,818 | \$ - | \$ (25,000) | \$ (4,460,163) | \$ (1,117,970) |

See accompanying notes to unaudited condensed consolidated financial information.

**SEAWRIGHT HOLDINGS, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

|                                                                                                | For the three months ended March 31, |                  | For the period<br>from<br>October 14, 1999<br>(date of<br>inception)<br>through<br>March 31, 2007 |
|------------------------------------------------------------------------------------------------|--------------------------------------|------------------|---------------------------------------------------------------------------------------------------|
|                                                                                                | 2007                                 | 2006             |                                                                                                   |
| NET CASH (USED IN) OPERATING ACTIVITIES                                                        | \$ (543,384)                         | \$ (96,510)      | \$ (3,290,845)                                                                                    |
| NET CASH (USED IN) INVESTING ACTIVITIES                                                        | (32,602)                             | (7,900)          | (948,365)                                                                                         |
| NET CASH PROVIDED BY FINANCING<br>ACTIVITIES                                                   | 573,475                              | -                | 4,239,685                                                                                         |
| NET INCREASE (DECREASE) IN CASH AND<br>EQUIVALENTS                                             | (2,511)                              | (104,410)        | 475                                                                                               |
| Cash and cash equivalents at the beginning of the<br>period                                    | 2,986                                | 130,857          | -                                                                                                 |
| Cash and cash equivalents at the end of the period                                             | <b>\$ 475</b>                        | <b>\$ 26,447</b> | <b>\$ 475</b>                                                                                     |
| Supplemental Disclosures of Cash Flow Information                                              |                                      |                  |                                                                                                   |
| Cash paid during the period for interest                                                       | \$ 130,897                           | \$ 41,209        | \$ 717,556                                                                                        |
| Income taxes paid                                                                              | -                                    | -                | -                                                                                                 |
| Capitalized financing costs in connection with<br>issuance of notes payable                    | 9,228                                | -                | 59,303                                                                                            |
| Amortization of deferred financing costs                                                       | 87,828                               | 35,072           | 447,688                                                                                           |
| Depreciation and amortization                                                                  | 2,656                                | 2,612            | 20,100                                                                                            |
| Accretion of interest - trade name liability                                                   | 941                                  | 844              | 6,079                                                                                             |
| Amortization of debt discounts                                                                 | 60,520                               | 28,020           | 321,197                                                                                           |
| Stock issued in connection with payment of interest<br>and service charges on outstanding debt | 19,937                               | -                | 19,937                                                                                            |

See accompanying notes to unaudited condensed consolidated financial information

**SEAWRIGHT HOLDINGS, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**MARCH 31, 2007**

**NOTE A-SUMMARY OF ACCOUNTING POLICIES**

General

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Accordingly, the results from operations for the three months period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. The unaudited condensed financial statements should be read in conjunction with the December 31, 2006 financial statements and footnotes thereto included in the Company's SEC Form 10 KSB.

Business and Basis of Presentation

Seawright Holdings, Inc. (the "Company") was formed on October 14, 1999 under the laws of the state of Delaware. The Company is a "development stage enterprise" (as defined in statement of Financial Accounting Standards No. 7). The Company is currently engaged in the spring water bottling and distribution business. From its inception through the date of these financial statements, the Company has recognized minimal revenues and has incurred significant operating expenses. Consequently, its operations are subject to all risks inherent in the establishment of a new business enterprise. For the period from inception through March 31, 2007, the Company has accumulated losses of \$4,460,162.

The consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiary, Seawright Springs LLC. Significant intercompany transactions have been eliminated in consolidation.

Reclassification

Certain reclassifications have been made to conform prior periods' data to the current presentation. These reclassifications had no effect on reported losses.

Stock Based Compensation

On January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment," which requires the measurement and recognition of compensation expense for all stock-based awards made to employees based on estimated fair values. SFAS No. 123(R) supersedes previous accounting under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" for periods beginning in fiscal 2006. In March 2005, the SEC issued Staff Accounting Bulletin ("SAB") No. 107, providing supplemental implementation guidance for SFAS 123(R). The Company has applied the provisions of SAB No. 107 in its adoption of SFAS No. 123(R).



SFAS No. 123(R) requires companies to estimate the fair value of stock-based awards on the date of grant using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods. The Company adopted SFAS No. 123(R) using the modified prospective application, which requires the application of the standard starting from January 1, 2006, the first day of the Company's year. The Company's condensed consolidated financial statements for the three months ended March 31, 2007 and 2006 reflect the impact of SFAS No. 123(R).

**SEAWRIGHT HOLDINGS, INC.**  
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**NOTE A-SUMMARY OF ACCOUNTING POLICIES (Continued)**

No stock-based compensation expense related to employee stock options was recognized under SFAS No. 123(R) for the three months ended March 31, 2007 and 2006. As of March 31, 2007, there was no stock-based compensation cost related to non-vested stock options.

Revenue Recognition

For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition* (“SAB104”), which superceded Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* (“SAB101”). SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management’s judgments regarding the fixed nature of the selling prices of the products delivered and the collectibility of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. SAB 104 incorporates Emerging Issues Task Force 00-21 (“EITF 00-21”), *Multiple-Deliverable Revenue Arrangements*. EITF 00-21 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets.

Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities.” SFAS No. 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. Subsequent changes in fair value of these financial assets and liabilities would be recognized in earnings when they occur. SFAS No. 159 is effective for the Company’s financial statements for the year beginning January 1, 2008, with earlier adoption permitted. The Company is currently evaluating the effect and timing that adoption of this statement will have on its consolidated financial position and results of operations.

**NOTE B - MARKETABLE SECURITIES**

The Company classified all of its marketable securities as trading as the securities are bought and held principally for the purpose of selling them in the near term. The Company actively and frequently traded securities with the objective of generating profits on short-term differences in price. The trading securities are marked to market on a monthly basis. At March 31, 2007, the Company’s trading securities are carried at fair value of \$19,669. The Company had no gain or loss, a realized net gain of \$200 and a net gain of \$37,356 on trading securities in its operating income during the three-month period ended March 31, 2007 and 2006, and for the period from October 14, 1999 (date of inception) through March 31, 2007, respectively.

**SEAWRIGHT HOLDINGS, INC.**  
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**NOTE C - NOTES PAYABLE**

Notes payable at March 31, 2007 are as follows:

|                                                                                                                                                              | March 31, 2007 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| 9.375% note payable, monthly payments of \$4,592 with remaining principal and outstanding interest due and payable June 2009, collateralized by land.        | \$ 524,236     |
| 15% note payable, monthly interest payments, principal due June 2007, collateralized by land.                                                                | 645,000        |
| 35% note payable, net of discount, monthly principal and interest payments of \$65,000, maturing in December 2007, collateralized by signed put notices. (a) | 551,155        |
| 7% note payable, due on or before April 1, 2008, uncollateralized.                                                                                           | 300,000        |
|                                                                                                                                                              | 2,020,391      |
| Less: current portion                                                                                                                                        | (1,502,370)    |
| Note payable - long term                                                                                                                                     | \$ 518,021     |

(a) During the first quarter of 2007, the Company was in default under the terms of this note. As such, the holder of the note exercised its right to increase the face amount of the note by 10%, being \$78,000, as a penalty. This amount has been recorded as interest expense during the quarter ended March 31, 2007.

Aggregate maturities of long-term debt as of March 31, 2007 are as follows:

|                               |              |
|-------------------------------|--------------|
| Twelve months ended March 31, |              |
| 2008                          | \$ 1,502,370 |
| 2009                          | 6,983        |
| 2010                          | 511,038      |
| Total                         | \$ 2,020,391 |

**NOTE D - PRIVATE PLACEMENT AND CONVERTIBLE PROMISSORY NOTES PAYABLE**

The Company entered into a Private Placement Memorandum in August 2004 to offer up to 1,000 units of equity/notes payable instrument. Each unit consists of 2,500 shares of common stock of the Company, \$1,500 of convertible promissory notes ("Convertible Notes"), and 1 warrant to purchase 300 shares of the Company's common stock at \$0.85 per share. The Convertible Notes accrues interest at 11% per annum, payable and due in September 2009. The noteholder has the option to convert any unpaid note principal and accrued interest to the Company's common stock at a rate of \$0.85 per share anytime after six months from the issuance date of the note.

As of December 31, 2005, the Company received total proceeds of \$2,665,116, net of placement costs and fees of \$331,884, for 999 units subscribed. Pursuant to the terms of the Private Placement Memorandum, the Company issued to the investors Convertible Notes in an aggregate of \$1,498,500. The Company is obligated to issue 2,497,500 shares of its common stock, valued at \$1,563,376, to the investors in connection with the private placement. The Company also issued to investors an aggregate of 999 warrants to purchase 299,700 shares of common stock as of December 31, 2005.

**SEAWRIGHT HOLDINGS, INC.**  
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**NOTE D - PRIVATE PLACEMENT AND CONVERTIBLE PROMISSORY NOTES PAYABLE (Continued)**

A summary of convertible promissory notes payable at March 31, 2007 is as follows:

|                                                                                                                                                                                                                                     | March 31, 2007 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| Convertible notes payable ("Convertible Notes"); 11% per annum; maturity date is in September 2009; the note holder has the option to convert unpaid note principal and interest to the Company's common stock at \$0.85 per share. | \$ 1,498,500   |
| Debt Discount - beneficial conversion feature, net of accumulated amortization of \$139,978 at March 31, 2007.                                                                                                                      | (140,228)      |
| Note Discount, net of accumulated amortization of \$139,978 at March 31, 2007.                                                                                                                                                      | (140,228)      |
| Total                                                                                                                                                                                                                               | \$ 1,218,044   |
| Less: current portion                                                                                                                                                                                                               | -              |
|                                                                                                                                                                                                                                     | \$ 1,218,044   |

In accordance with *Emerging Issues Task Force Issue 98-5, Accounting For Convertible Securities With a Beneficial Conversion Feature or Contingently Adjustable Conversion Ratios (EITF 98-5)*, the Company allocated, on a relative fair value basis, the net proceeds amongst the common stock, convertible notes and warrants issued to the investors. As of December 31, 2005, the Company had recognized a discount to the notes in the amount of \$280,207. The note discount is being amortized over the maturity period of the notes, being five years. As of December 31, 2005, the Company had recognized a total of \$280,207 of the proceeds, which is equal to the intrinsic value of the imbedded beneficial conversion feature, to additional paid-in capital and a discount against the Convertible Note. The debt discount attributed to the beneficial conversion feature is amortized over the Convertible Notes' maturity period, being five years, as interest expense.

In connection with the placement of the Convertible Notes, the Company issued detachable warrants granting the holders the right to acquire a total of 299,700 shares of the Company's common stock at \$0.85 per share as of December 31, 2005. The warrants expire five years from their issuance. As of December 31, 2005, the Company had recognized the value attributable to the warrants, being \$190,143, to additional paid-in capital in accordance with *Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments (EITF 00-27)*. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 3.38%, a dividend yield of 0%, and volatility of 296%.

The Company amortized the Convertible Notes discount and debt discount attributed to the beneficial conversion feature and recorded non-cash interest expense of \$28,020 for the periods ended March 31, 2007 and 2006.

Financing costs attributable to the equity portion of the private placement totaled \$175,899 and were netted against the amount attributable to common stock. Deferred financing costs of \$155,985 attributable to the debt portion of the private placement are being amortized over the life of the debt instrument, being 5 years. The Company amortized \$7,799 for the periods ended March 31, 2007 and 2006 in relation to the deferred financing costs.



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**NOTE E - CAPITAL STOCK**

The Company was incorporated under the laws of the State of Delaware on October 14, 1999 under the name of Pre-Settlement Funding Corporation. The company has authorized 100,000 shares of preferred stock, with a par value of \$.001 per share. The Company has designated 60,000 of its preferred stock as Series A Convertible Preferred Stock. As of March 31, 2007, the Company has no Preferred Stock issued and outstanding. The Company has authorized 19,900,000 shares of common stock, with a par value of \$.001 per share. As provided for in the debt agreement, the Company issued 187,710 shares of common stock valued at \$105,281, to a note holder as payment on its outstanding debt and interest expense in the first quarter of 2007. During the quarter ended March 31, 2007, the president and majority shareholder of the Company also contributed capital of \$42,951 as further explained in Note H. The Company issued 900 shares of common stock in exchange warrants exercised at \$.85 per share. The Company also issued 250,000 shares of common stock to a note holder in exchange for financing incentive accrued during the year ended December 31, 2006. As of March 31, 2007, there are 9,760,166 shares of common stock issued and outstanding.

**NOTE F - STOCK OPTIONS AND WARRANTS**Stock Options

The following table summarizes the changes in options outstanding and the related prices for the shares of the Company's common stock issued to the Company employees and consultants. These options were granted in lieu of cash compensation for services performed or other consideration.

| Exercise Prices | Options Outstanding |                                                     |                                | Options Exercisable |                                 |
|-----------------|---------------------|-----------------------------------------------------|--------------------------------|---------------------|---------------------------------|
|                 | Number Outstanding  | Weighted Average Remaining Contractual Life (Years) | Weighed Average Exercise Price | Number Exercisable  | Weighted Average Exercise Price |
| \$ 0.50 - 2.00  | 1,575,000           | 3.59                                                | \$ 1.33                        | 1,575,000           | \$ 1.33                         |

Transactions involving options issued to employees and consultants are summarized as follows:

|                                  | Number of Shares | Weighted Average Price Per Share |
|----------------------------------|------------------|----------------------------------|
| Outstanding at January 1, 2005   | 1,500,000        | 1.35                             |
| Granted                          | -                | -                                |
| Exercised                        | -                | -                                |
| Canceled or expired              | -                | -                                |
| Outstanding at December 31, 2005 | 1,500,000        | 1.35                             |
| Granted                          | 75,000           | 0.85                             |
| Exercised                        | -                | -                                |
| Canceled or expired              | -                | -                                |
| Outstanding at December 31, 2006 | 1,575,000        | 1.33                             |
| Granted                          | -                | -                                |

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|                               |              |      |
|-------------------------------|--------------|------|
| Exercised                     | -            | -    |
| Canceled or expired           | -            | -    |
| Outstanding at March 31, 2007 | 1,575,000 \$ | 1.33 |

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**SEAWRIGHT HOLDINGS, INC.**  
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**NOTE G - STOCK OPTIONS AND WARRANTS (Continued)**Warrants

In connection with the Company's Private Placement (Note D) the Company granted an aggregate of 999 warrants to investors, each exercisable for 300 shares of common stock. Additionally, the Company granted 594,000 warrants to a placement agent in exchange for services. Each warrant will be exercisable for one share of the Company's common stock.

The following table summarizes the changes in warrants outstanding and the related prices for the shares of the Company's common stock.

| Exercise Prices | Warrants Outstanding  |                                                              | Weighed<br>Average<br>Exercise Price | Warrants Exercisable  |                                          |
|-----------------|-----------------------|--------------------------------------------------------------|--------------------------------------|-----------------------|------------------------------------------|
|                 | Number<br>Outstanding | Weighted Average<br>Remaining<br>Contractual<br>Life (Years) |                                      | Number<br>Exercisable | Weighted<br>Average<br>Exercise<br>Price |
| \$ 0.85         | 594,999               | 2.44                                                         | \$ 0.85                              | 594,999               | \$ 0.85                                  |

Transactions involving warrants issued to investors and consultants are summarized as follows:

|                                  | Number of<br>common shares<br>issuable upon<br>exercise of<br>warrants | Weighted<br>Average Price<br>Per Share |
|----------------------------------|------------------------------------------------------------------------|----------------------------------------|
| Outstanding at January 1, 2005   | 889,200                                                                | \$ 0.85                                |
| Granted                          | 4,500                                                                  | 0.85                                   |
| Exercised                        | -                                                                      | -                                      |
| Canceled or expired              | -                                                                      | -                                      |
| Outstanding at December 31, 2005 | 893,700                                                                | \$ 0.85                                |
| Granted                          | -                                                                      | -                                      |
| Exercised                        | -                                                                      | -                                      |
| Canceled or expired              | -                                                                      | -                                      |
| Outstanding at December 31, 2006 | 893,700                                                                | \$ 0.85                                |
| Granted                          | -                                                                      | -                                      |
| Exercised                        | (900)                                                                  | 0.85                                   |
| Canceled or expired              | -                                                                      | -                                      |
| Outstanding at March 31, 2007    | 892,800                                                                | \$ 0.85                                |

The estimated value of the compensatory warrants granted to the Company's placement agent in exchange for services rendered was determined using the Black-Scholes pricing model and the Company capitalized financing costs of \$545,460 during the year ended December 31, 2004. The financing costs are being amortized over the contractual terms (five years) of the convertible debenture. During the periods ended March 31, 2007 and 2006, the Company amortized financing costs and charged to operations \$27,273.





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**NOTE H - RELATED PARTY TRANSACTIONS**

From time to time, the Company's President has advanced funds to the Company for working capital purposes. The Company had paid in full the amount due to the Company's President during the year ended December 31, 2006. Additionally, the total payment the Company remitted exceeded the total balance due to the Company's President in the amount of \$42,951 during the year ended December 31, 2006. The Company has accounted for the excess payment to the Company's President as a nonreciprocal transfer to a shareholder for 2006 and, accordingly, has reflected the overpayment as a direct reduction of additional paid-in capital.

During 2007, the Company's President contributed capital of \$42,951 to the Company in direct response to the excess payments. The Company has accounted for the contribution as an addition to paid-in capital. The Company's President also advanced an additional \$154,988 for working capital purposes during the first quarter of 2007 and is reflected as Due to Related Party on the condensed consolidated balance sheet.

**NOTE I - GOING CONCERN MATTERS**

The accompanying statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements from October 14, 1999 (date of inception of Company), the Company has generated minimal revenues and has accumulated losses of \$4,460,162. These factors, among others, may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

The Company's existence is dependent upon management's ability to develop profitable operations and resolve its liquidity problems. Management anticipates the Company will attain profitable status and improve its liquidity through the continued development of its products, establishing a profitable market for the Company's products and additional equity investment in the Company. The accompanying financial statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

In order to improve the Company's liquidity, the Company is actively pursuing additional debt and equity financing through discussions with investment bankers and private investors. There can be no assurance the Company will be successful in its effort to secure additional equity financing.

If operations and cash flows improve through these efforts, management believes that the Company can continue to operate. However, no assurance can be given that management's actions will result in profitable operations or in the resolution of its liquidity problems.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS.**

When used in this Form 10-QSB and in our future filings with the Securities and Exchange Commission, the words or phrases "will likely result", "management expects", "we expect", "will continue", "is anticipated", "estimated" or similar expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on any such forward-looking statements, each of which speaks only as of the date made. These statements are subject to risks and uncertainties, some of which are described below. We have no obligation to publicly release the result of any revisions that may be made to any forward-looking statements to reflect anticipated events or circumstances occurring after the date of such statements.

The forward-looking statements in the discussion that follows are subject to significant risks and uncertainties about us, our current and planned products, our current and proposed marketing and sales, and our projected results of operations. There are several important factors that could cause actual results to differ materially from historical results and percentages and results anticipated by the forward-looking statements. We have sought to identify the most significant risks to our business, but cannot predict whether or to what extent any of such risks may be realized nor can there be any assurance that we have identified all possible risks that might arise. Investors should carefully consider all of such risks before making an investment decision with respect to our stock. The following discussion and analysis should be read in conjunction with our financial statements and notes thereto. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment from our management.

### **Plan of Operation**

In 2003, we purchased property containing a spring located in Mt. Sidney, Virginia in the Shenandoah Valley with the intention of developing a spring water distribution business. The spring has a flow in excess of 1,000,000 gallons of water daily.

We have chosen to develop and acquire packaging for selling our water under the brand names Seawright Springs and Quibell. We have developed two proprietary Polyethylene Terephthalate, or PET, bottles in a 16.9 ounce size and a 33.8 ounce size. In addition, in June 2005 we acquired from Quibell, glass bottle designs for various sized bottles (including 237 ml, 385 ml, 750 ml and 1 liter sizes) as well as labels for various sized sparkling water bottles, spring water bottles and tea bottles (including 237 ml, 385 ml, 750 ml, 1 liter, 1.5 liter and 16.9 ounce bottles).

We are positioning our water in an effort to compete in the luxury brand category of the water market. We will also continue to seek opportunities to sell our daily supply of water to other bottlers.

In May of 2005 and April of 2006, respectively, we closed on the purchase of two parcels of land located approximately 10 miles south of the Mt. Sidney property. Both of these properties are currently zoned for agricultural use. Although no assurances can be given, both sites are expected to be re-zoned to commercial use according to the master zoning plan of the city of Staunton, Virginia. If these properties are rezoned for commercial use, we may lease these properties for commercial purposes.

The further development of our business will require, among other things, further capital expenditures on plant and equipment, developing marketing materials, renting additional office space, and interviewing and hiring administrative, marketing and maintenance personnel. While we have raised the capital necessary to meet our working capital and financing needs in the past, additional financing is required in order to meet our current and projected cash flow deficits from operations and development. We believe that it will be necessary to raise further capital to implement our business plan over the course of the next twelve months.



For the period from our inception through March 31, 2007, we have:

- formed our company and established our initial structure;
  - sought and pursued investment opportunities;
- reviewed and analyzed the potential market for natural spring water;
- purchased the Mt. Sidney property and procured the necessary financing to cover the initial purchase costs from an offering of preferred stock;
- entered into two agreements to purchase properties near the Mt. Sidney property, which we are considering leasing for commercial purposes;
- purchased trademarks and other intellectual property relating to the creation and bottling of flavored and non-flavored bottled water;
  - performed required testing of water quality at spring site;
- began developing a new web site as part of our marketing strategy; and
- made improvements to the spring site and water collection facilities.

### **Product Research and Development**

We do not anticipate performing research and development for any products during the next twelve months.

### **Acquisition or Disposition of Plant and Equipment**

We do not anticipate the sale of any significant property, plant or equipment during the next twelve months. We have made improvements to plant and equipment at the spring site, and we have spent approximately \$250,000 to complete the renovation of our spring catchment, which protects the water from outside elements.

### **Number of Employees**

As of March 31, 2007, we had one employee, our chief executive officer and president, Joel Sens. We anticipate that the number of employees will increase in the future. However, given our ability to contract out much of our required services, it is not anticipated, based on the current business plan, that new employees will be hired in the next twelve months. No formal contract for the compensation of Mr. Sens exists as of March 31, 2007, but we may enter into an employment contract with him within the next twelve months.

### **Comparison of Financial Results**

Three Months Ended March 31, 2007 and March 31, 2006

#### **Revenues**

During the quarter ended March 31, 2007, \$309 of revenue, was generated from the Mt. Sidney spring from on-site sales as compared to \$590 of revenue for the quarter ended March 31, 2006. We expect to increase our sales in future quarters and will remain a development stage company until revenues increase significantly.

## Costs and Expenses

In the quarter ended March 31, 2007, operating expenses were \$412,886. These expenses were related to the establishment of our spring water business, which includes expenses for consulting and engineering services, testing and spring maintenance, and to the administration and overhead of our business, which includes accounting, legal and office expenses. This compared with operating expenses for the quarter ended March 31, 2006 of \$228,010. The increase in expenses is due to the increased expenditures on the spring site operations principally related to consulting and marketing.

We have incurred net interest expenses of \$248,015 and \$79,375 for the quarters ended March 31, 2007 and 2006.

During the quarters ended March 31, 2007 and 2006, we recorded no net gain and a net gain of \$200, respectively, on our trading securities.

As of March 31, 2007, the President of our company advanced capital of \$154,988 for general working capital purposes.

## Liquidity and Capital Resources

As of March 31, 2007, we had a working capital deficit of \$1,705,684, an available cash balance of \$475, a marketable securities balance of \$19,669, and cash in excess of available funds, accounts payable and accrued liabilities balance, including accrued interest on the convertible notes, of \$415,380.

In August 2004 we issued a private placement memorandum to offer up to 1,000 units of equity/notes payable instruments. Each unit consisted of 2,500 shares of our common stock, \$1,500 of convertible promissory notes, and a warrant to purchase 300 shares of our common stock at \$0.85 per share. The convertible promissory notes accrue interest at 11% per annum, and are payable and due in September 2009. The note holders have the option to convert any unpaid note principal and accrued interest to our common stock at a rate of \$0.85 per share anytime after six months from the issuance date of the note. The private placement was closed in February of 2005. Over the course of our private placement, we received total proceeds of \$2,665,116, net of placement costs and fees, and issued to investors \$1,498,500 of convertible promissory notes, 2,497,500 shares of common stock and 999 warrants, of which 3 have been converted to common stock. Part of the proceeds of the private placement was used to pay off the remaining debt on the Mt. Sidney property.

The purchase of one of the two Staunton, Virginia properties mentioned above was closed on May 24, 2005. The purchase price for that parcel was \$725,000, of which \$225,000 was paid in cash. The remaining \$500,000 of the purchase price has been financed through a bank loan. We also completed the purchase of the second Staunton, Virginia property on April 10, 2006. The purchase price for the second property was \$240,000, less a previously made \$10,000 refundable deposit. We paid \$90,000 of the remaining purchase price at settlement and have financed the remaining \$140,000.

Our accounts payable and accrued liabilities of \$391,289 is composed predominantly of liabilities to our consultants and vendors associated with the Mt. Sidney spring, our accountants and lawyers and accrued interest on our convertible notes payable.

In order to provide funding for operations and capital expenditures, on September 12, 2005, we entered into an investment agreement with Dutchess Private Equities Fund, LP. The investment agreement establishes what is sometimes referred to as an "equity line of credit." Under the investment agreement, Dutchess has agreed to provide us with up to \$5,000,000 during the 36-month period following the date a registration statement of our common stock is declared effective by the Securities and Exchange Commission. During this 36-month period, we may request a draw

down under the equity line of credit by which we would sell shares of our common stock to Dutchess, which is obligated to purchase the shares under the investment agreement, subject to certain conditions set forth therein. We may, at our election, require Dutchess to purchase an amount equal to no more than either (a) 200% of the average daily volume of our common stock for the 10 trading days prior to the put notice date, multiplied by the average of the three daily closing bid prices immediately preceding the put notice date or (b) \$100,000; provided that we may not request more than \$1,000,000 in any single put notice. On the trading day following the put notice date, a pricing period of five trading days will begin. The purchase price for the common stock identified in the put notice will be equal to 95% of the lowest closing best bid price of our common stock during the pricing period. We are under no obligation to draw down under the equity line of credit.

On November 20, 2006, a registration statement on Form SB-2 pertaining to the Company's common stock was declared effective by the Securities and Exchange Commission. The registration statement related to the sale of shares of the Company's common stock by our stockholders. The Securities and Exchange Commission limited the amount of shares of the Company's common stock that the Company could register under the investment agreement to 1,000,000 shares of the Company's common stock. Accordingly, although the investment agreement remains a viable agreement, the Company can only require Dutchess to purchase up to 1,000,000 shares, thereby reducing the amount of money available to the Company.

During December 2006, the Company entered into a promissory note with a face amount of \$780,000. Under the terms of the note, the Company received \$650,000 less closing costs of \$50,075 creating a calculated effective interest rate of 35%. As a further incentive, we agreed to issue 250,000 shares of our common stock to Dutchess. The fair value of the shares, \$127,500, was accounted for as a deferred financing cost and is being amortized over the life of the note. As detailed in the agreement, the Company shall make payments to the holder in the amount of the greater of (a) 100% of each Put (as defined in the investment agreement) given to the investor from the Company or (b) made in 12 monthly increments of \$65,000. The agreement is collateralized by signed put notices under the investment agreement, as well as a lien on the Company's goods, inventory, general intangibles, and all associated documents and chattel paper. Moreover, Joel, Sens, the President and Chief Executive Officer of the Company has pledged certain personal property.

### **Future Funding Requirements and Going Concern**

While we have raised the capital necessary to meet our working capital and financing needs in the past, additional financing is required in order to meet our current and projected cash flow deficits from operations and development. Within the next year, funds will be needed to meet our obligations related to the financing of the purchases of the Staunton, Virginia properties and to fund improvements to our spring site and our initial operations.

We intend to generate these funds primarily from our equity line of credit. We believe that proceeds from the equity line of credit will allow us to cover our capital and operating expenses over the next year. If during that period or thereafter, we are not successful in generating sufficient liquidity from operations or in raising sufficient capital resources on terms acceptable to us, this could have a material adverse effect on our business, results of operations, liquidity and financial condition.

Our independent certified public accountants have stated in their report included in our December 31, 2006 Form 10-KSB, that we have incurred operating losses since our inception, and that we are dependent upon management's ability to develop profitable operations. These factors among others may raise substantial doubt about our ability to continue as a going concern.

### **Off-Balance Sheet Arrangements**

We have not had, and as of March 31, 2007 do not have, any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

### **Inflation**

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could adversely affect our business, financial condition and results of operations.





## **Trends, Risks and Uncertainties**

We have sought to identify what we believe to be the most significant risks to our business as discussed below, but cannot predict whether or to what extent any of such risks may be realized nor can there be any assurances that we have identified all possible risks that might arise. Investors should carefully consider all of such risk factors before making an investment decision with respect to our stock.

### *Limited operating history; anticipated losses; uncertainty of future results*

We have only a limited operating history upon which to be evaluated. Our prospects must be evaluated with a view to the risks encountered by a company in an early stage of development. We will be incurring costs to develop, introduce and enhance our spring water operations and products, to develop and market an interactive website, to establish marketing relationships, to acquire and develop products that will complement each other, and to build an administrative organization. To the extent that such expenses are not followed by commensurate revenue, our business, results of operations and financial condition will be materially adversely affected. There can be no assurance that we will be able to generate sufficient revenues from sales of our products. We expect negative cash flow from operations to continue for at least the next 12 months, and we must raise additional capital to meet our expected expenses. We intend to raise this capital primarily through the establishment of an equity line of credit as described above, but it is possible that we will not be able to establish the equity line of credit, or that proceeds from the equity line of credit will be insufficient to cover our future expenses.

### *Potential fluctuations in quarterly operating results*

Our quarterly operating results may fluctuate significantly in the future as a result of a variety of factors, most of which are outside our control, including: market acceptance of our products, the demand for the spring water services and related products; seasonal trends in demand; the amount and timing of operating costs and capital expenditures relating to the expansion of our business, operations and infrastructure, and the implementation of marketing programs, key agreements and strategic alliances; our ability to obtain additional financing in a timely manner and on terms favorable to us; the introduction of new services and products by us or our competitors; price competition or pricing changes in the industry; technical difficulties; and general economic conditions specific to the beverage market and the spring water industry. Our quarterly results may also be significantly affected by the impact of the accounting treatment of acquisitions, financing transactions or other matters. Particularly at our early stage of development, such accounting treatment can have a material impact on the results for any quarter. Due to the foregoing factors, among others, it is likely that our operating results will fall below our expectations or investors' expectations in some future quarter.

### *We are subject to substantial competition and may not have the ability or the capital to compete effectively*

The industry in which we expect our products to be sold is highly competitive. We may not have the ability or the capital to compete effectively in this environment. The significant competition in our industry could harm our ability to win business and increase the price pressure on our products. We face strong competition from a wide variety of firms, including large, multinational firms with far greater resources than we possess. Many of our competitors have considerably greater financial, marketing and technological resources than we do, which may make it difficult to sell our products. Many of our competitors also have longer operating histories and presence in key markets, greater name recognition, larger customer bases and significantly greater financial, sales and marketing, manufacturing, distribution, technical and other resources. As a result, these competitors may also be able to devote greater resources to the promotion and sale of their products.

*Management of growth*

Our future success will also be highly dependent upon our ability to successfully manage the anticipated expansion of our operations. Our ability to manage and support growth effectively will be substantially dependent on our ability to implement adequate financial and management controls, reporting systems and other procedures, and attract and retain sufficient numbers of qualified technical, sales, marketing, financial, accounting, administrative and management personnel.

Our future success also depends upon our ability to address potential market opportunities while managing expenses to match our ability to finance our operations. This need to manage our expenses will place a significant strain on our management and operational resources. If we are unable to manage our expenses effectively, our business, results of operations and financial condition will be materially and adversely affected.

*Risks associated with acquisitions*

Although we do not presently intend to do so, as part of our business strategy in the future, we could acquire assets and businesses relating to or complementary to our operations. Any acquisitions by us would involve risks commonly encountered in acquisitions of assets or companies. These risks would include, among other things, the following: we could be exposed to unknown liabilities of the acquired companies; we could incur acquisition costs and expenses higher than anticipated; fluctuations in our quarterly and annual operating results could occur due to the costs and expenses of acquiring and integrating new businesses or technologies; we could experience difficulties and expenses in assimilating the operations and personnel of any acquired businesses; our ongoing business could be disrupted and our management's time and attention diverted; and we could be unable to integrate with any acquired businesses successfully.

*Other Risks*

We are also subject to risks associated with economic conditions generally and the economy in those areas where we have or expect to have assets and operations; competitive and other factors affecting our operations, markets, products and services; those risks associated with our ability to successfully negotiate with certain customers, risks relating to estimated contract costs, estimated losses on uncompleted contracts and estimates regarding the percentage of completion of contracts, associated costs arising out of our activities and the matters discussed in this report; risks relating to changes in interest rates and in the availability, cost and terms of financing; risks related to the performance of financial markets; risks related to changes in domestic laws, regulations and taxes; risks related to changes in business strategy or development plans; risks associated with future profitability; and other factors discussed elsewhere in this report and in documents filed by us with the Securities and Exchange Commission. Many of these factors are beyond our control.

**ITEM 3. CONTROLS AND PROCEDURES**

Our chief executive officer and chief financial officer have evaluated, as of the end of the period covered by this quarterly report, the effectiveness of the design, maintenance and operation of our disclosure controls and procedures. Our chief executive officer and chief financial officer have determined that our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file under the Exchange Act is accurate and is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and regulations.

Disclosure controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving an entity's disclosure objectives. The likelihood of achieving such objectives is affected by limitations inherent in disclosure controls and procedures. These include the fact that human judgment in decision

making can be fully faulty and that breakdowns in internal control can occur because of human failures such as errors or mistakes or intentional circumvention of the established process.

During the quarter ended March 31, 2007, there were no changes in internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS.**

None.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

During the quarter ended March 31, 2007, the Company issued 250,000 shares of common stock to a note holder in exchange for financing incentive accrued during the year ended December 31, 2006. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

There were no matters submitted requiring a vote of security holders during the three month period ending March 31, 2007.

### **ITEM 5. OTHER INFORMATION.**

None.

### **ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.**

- 31 Certification of Chief Executive Officer and Treasurer (principal executive officer and principal financial officer), pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002, as filed herewith.
- 32 Certification of Chief Executive Officer and Treasurer (principal executive officer and principal financial officer), pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002, as filed herewith.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Seawright Holdings, Inc.

Date: May 21, 2007

By:

/s/ Joel

Sens

\_\_\_\_\_  
Name: Joel Sens

Title: Chief Executive Officer