

SEAWRIGHT HOLDINGS INC  
Form 10KSB  
April 17, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-KSB

(Mark One)

Annual report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2006

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.  
(Name of Small Business Issuer in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

600 Cameron Street, Alexandria Virginia  
(Address of Principal Executive Offices)

22314  
(Zip Code)

(703) 340-1629  
(Issuer's telephone number, including Area Code)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: None

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) been subject to such filing requirements for the past 90 days.

Yes  No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. Yes  No

Edgar Filing: SEAWRIGHT HOLDINGS INC - Form 10KSB

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

State issuer's revenues for its most recent fiscal year: \$3,304.

The trading price of the registrant's stock on the OTC Bulletin Board on March 30, 2007 was \$0.96/share bid price and \$0.965/share ask price. The average bid and ask price was \$0.9625/share. Based on this \$0.9625 value, the aggregate market value of common stock owned by non-affiliates of the registrant was approximately \$6,005,261, calculated on the basis of 6,239,232 shares of common stock owned by non-affiliates.

As of March 30, 2007, the total number of issued and outstanding shares of the issuer's common stock, par value \$0.001, was 9,760,166.

Transitional Small Business Disclosure Format: Yes  No  x

---

## TABLE OF CONTENTS

|            |   | PAGE |
|------------|---|------|
|            | PART I  |      |
| ITEM 1.    | Description of Business   | 3    |
| ITEM 2.    | Description of Property   | 10   |
| ITEM 3.    | Legal Proceedings   | 11   |
| ITEM 4.    | Submission of Matters to a Vote<br>of Security Holders  | 11   |
|            | PART II   |      |
| ITEM 5.    | Market for Common Equity,<br>Related Stockholder Matters and<br>Small Business Issuer Purchases<br>of Equity Securities | 12   |
| ITEM 6.    | Management's Discussion and<br>Analysis or Plan of Operation  | 14   |
| ITEM 7.    | Financial Statements  | 24   |
| ITEM 8.    | Changes in and Disagreements<br>with Accountants on<br>Accounting and Financial<br>Disclosure                           | 24   |
| ITEM 8A.   | Controls and Procedures   | 24   |
|            | PART III  |      |
| ITEM 9.    | Directors and Executive Officers<br>of the Registrant   | 26   |
| ITEM 10.   | Executive Compensation  | 28   |
| ITEM 11.   | Security Ownership of Certain<br>Beneficial Owners and<br>Management and Related<br>Stockholder Matters                 | 29   |
| ITEM 12.   | Certain Relationships and Related<br>Transactions   | 30   |
| ITEM 13.   | Exhibits  | 31   |
| ITEM 14.   | Principal Accountant Fees and<br>Services   | 34   |
| Signatures |   | 35   |

PART I.

FORWARD-LOOKING STATEMENTS

When used in this Form 10-KSB 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 within the meaning of the Private Securities Litigation Reform Act of 1995. 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 forward-looking statements are subject to risks, uncertainties and other factors which cause actual results to differ materially from those identified by the forward-looking statements, some of which are described below, including without limitation in Part III, Item 6, Management's Discussion and Analysis or Plan of Operation, under the heading "Trends, Risks and Uncertainties." We have no obligation to update any forward-looking statements to reflect events or circumstances occurring after the date of such statements.

ITEM 1. BUSINESS.

Introduction

We incorporated under the laws of the State of Delaware on October 14, 1999, originally under the name Pre-Settlement Funding Corporation. In September 2003, we changed our name to Seawright Holdings, Inc. Seawright Springs, LLC is a wholly owned subsidiary of Seawright Holdings, Inc. and holds title to the Mt. Sydney property described below.

Discontinued Operations

As a result of our acquisition of real property and improvements in October 2003, we restructured our operations to focus on the development of a spring water bottling and distribution business. This restructuring included discontinuing our previous practice of financing plaintiffs who are involved in personal injury claims.

Business and Basis of Presentation

From our inception through the date of these financial statements, we have recognized limited revenues and incurred significant operating expenses. Consequently, our operations are subject to all risks inherent in the establishment of a new business enterprise. For the period from inception through December 31, 2006, we have accumulated losses of \$3,799,571.

In October 2003, we acquired property that generates natural spring water. Through the acquisition of this property, we intend to enter the business of producing and selling spring water in Mt. Sidney, Virginia, which is located in the Shenandoah Valley. The property has a natural flow of spring water in excess of 1,000,000 gallons of water daily.

The main focus of our current operations is the establishment of a business that produces and sells spring water from our Mt. Sidney property, although we may pursue other business opportunities that we deem appropriate.

In December 2004, we entered into agreements to acquire two parcels of land located approximately 10 miles south of our Mt. Sidney property and have consummated both of those agreements. We are considering leasing these properties for commercial purposes. See "Description of Property" below.

#### Business Strategy

Our strategy is to focus on selling natural spring water under the "Seawright Springs" label while aggressively pursuing the bulk sale of natural spring water produced on our Mt. Sidney property.

In addition to our own brand, we expect to also continue to seek opportunities to sell our daily supply of water to other bottlers. We may enter into co-packing arrangements, where other bottlers bottle our water under our name, or private labeling agreements, where our water is bottled under another company's name. Selling our water under private labeling agreements will allow us to sell our water without incurring the high costs of advertising required to establish brand recognition and market identity.

We currently do not have our own bottling and packaging facilities and we intend to have outside providers bottle and package our brand of water.

We have installed an updated bulk water loading facility at the Mt. Sidney spring site. Now, private labeled bottlers will be able to load water at our spring site and transport it to their bottling and packaging facilities.

#### Bottled Water Market Overview

Demand for bottled water has grown significantly in recent years, and in particular demand for products that contain spring water. In 2005, total U.S. bottled water volume surpassed 7.5 billion gallons, which was a 10.7% advance over 2004's volume level and bottled water remains the fastest growing major beverage segment. In 2005, bottled water category continues as the second largest commercial beverage in the United States.

#### U.S. BOTTLED WATER MARKET Volume and Producer Revenues 2001 - 2005

| Year | Millions | Annual | Millions    | Annual |
|------|----------|--------|-------------|--------|
|      | of       |        | of          |        |
|      | Gallons  | Change | Dollars     | Change |
| 2001 | 5,185.2  | 9.7%   | \$ 6,880.6  | 12.6%  |
| 2002 | 5,795.7  | 11.8%  | \$ 7,901.4  | 14.8%  |
| 2003 | 6,269.8  | 8.2%   | \$ 8,526.4  | 7.9%   |
| 2004 | 6,806.7  | 8.6%   | \$ 9,169.4  | 7.5%   |
| 2005 | 7,537.1  | 10.7%  | \$ 10,012.5 | 9.2%   |

*Source: Beverage Marketing Corporation*



During the five-year period from 2001 to 2005, bottled water volume increased by an average growth rate of 9.8%, which growth rate exceeded the growth rates of all other beverage categories.

Per capita consumption of bottled water has been growing by at least one gallon annually. In 2005, the per capita consumption of water in the United States increased 9.6% from 2004's rate, which means annual bottled water consumption by U.S. residents is second only to carbonated soft drinks.

**U.S. BOTTLED WATER MARKET  
Per Capita Consumption  
2001 - 2005**

| <b>Year</b> | <b>Gallons<br/>Per Capita</b> | <b>Annual<br/>% Change</b> |
|-------------|-------------------------------|----------------------------|
| 2001        | 18.8                          | 8.7%                       |
| 2002        | 20.9                          | 10.7%                      |
| 2003        | 22.4                          | 7.3%                       |
| 2004        | 24.0                          | 7.6%                       |
| 2005        | 26.1                          | 9.6%                       |

*Source: Beverage Marketing Corporation*

The bottled water market comprises three major segments: still or non-sparkling, sparkling, and imported water, which includes both non-sparkling and sparkling segments. The Company's spring water may be used in both sparkling and non-sparkling applications.

The Beverage Marketing Corporation categorizes water into three main categories.

\* Non-sparkling or still water, which contains no carbonation and is consumed as an "alternative to tap water."

\* Sparkling water, which contains either natural or artificial carbonation and is positioned to compete in the broad "refreshment beverage" field.

\* Imported water, which includes both sparkling and non-sparkling water produced and bottled outside the U.S., and which is targeted to "image-conscious consumers."

**U.S. BOTTLED WATER MARKET  
Volume & Growth by Segment  
2001 - 2005**

| Year | Non-Sparkling |        | Domestic Sparkling |        | Imports |        | Total   |        |
|------|---------------|--------|--------------------|--------|---------|--------|---------|--------|
|      | Volume*       | Change | Volume*            | Change | Volume* | Change | Volume* | Change |
| 2001 | 4,917.3       | 10.7%  | 144.0              | -0.1%  | 123.9   | -10.1% | 5,185.2 | 9.7%   |
| 2002 | 5,487.5       | 11.6%  | 149.5              | 3.8%   | 158.7   | 28.1%  | 5,795.7 | 11.8%  |
| 2003 | 5,923.9       | 8.0%   | 152.6              | 2.1%   | 193.3   | 21.8%  | 6,269.8 | 8.2%   |
| 2004 | 6,411.3       | 8.2%   | 166.8              | 9.3%   | 228.6   | 18.3%  | 6,806.7 | 8.6%   |
| 2005 | 7,169.5       | 11.8%  | 185.0              | 10.9%  | 182.7   | -20.1% | 7,537.1 | 10.7%  |

\* Millions of gallons

*Source: Beverage Marketing Corporation*

Non-sparkling water (still water) remains the largest segment of bottled water, with 11.8% and 8.2% growth in that area in 2005 and 2004, respectively.

The bottled still water business, which will represent our most significant product area, has been consistently growing at rates between 8.0% and 11.8% per annum since 2001 according to the Beverage Marketing Corporation. Still water now comprises over 95% of all of the bottled water gallonage sold in the United States.

**Geographic Markets and Distribution Channels**

Bottled water is sold through various channels, including:

- Home Delivery (1 to 5 gallon bottles)
- Commercial and Office Delivery (1 to 5 gallon bottles)
- Off Premise Retail (supermarkets, convenience store, and drug store)
- On-Premise Retail (restaurants)
- Vending Machines
- Institutional Usage (hospitals, schools)
- Bulk Sales (Domestic and International sales of potable water)



## Bottled Water Classifications and Definitions

The Company's water qualifies as natural spring water and is a mineral water containing 300 parts per million (ppm) total dissolved solids (TDS). The various classifications of water are contained in the paragraphs that follow.

Bottled water or drinking water is water that is intended for human consumption and that is sealed in bottles or other containers with no added ingredients except that it may optionally contain safe and suitable anti-microbial agents. Fluoride may be optionally added within the limitations established by the U.S. Food and Drug Administration ("FDA"). Firms may manufacture non-standardized bottled water products with ingredients such as minerals for flavor. The common or usual name of the resultant product must reflect these additions. Bottled water or drinking water may be used as an ingredient in beverages (e.g., diluted juices or flavored bottled waters). It does not include those food ingredients that are declared in ingredient labeling as "water", "carbonated water," "disinfected water," "filtered water," "seltzer water," "soda water," "sparkling water," and "tonic water."

Natural water is bottled spring, mineral, artesian, or well water which is derived from an underground formation or water from surface water that only requires minimal processing. Natural water is not derived from a municipal system or public water supply, and is unmodified except for limited treatment (e.g., filtration, ozonation or equivalent disinfection process).

Spring water is water derived from an underground formation from which water flows naturally to the surface of the earth. Spring water must comply with the FDA standard of identity. Spring water must be collected only at the spring or through a borehole tapping the underground formation feeding the spring. There must be a natural force causing the water to flow to the surface through a natural orifice. The location of the spring must be identified and such identification must be maintained in a company's records. Spring water collected with the use of an external force must be from the same underground stratum as the spring, as shown by a measurable hydraulic connection using a hydro-geologically valid method between the bore hole and the natural spring, and must have all the physical properties, before treatment, and be of the same composition and quality, as the water that flows naturally to the surface of the earth. If spring water is collected with the use of an external force, water must continue to flow naturally to the surface of the earth through the spring's natural orifice.

Mineral water is water containing not less than 250 parts per million (ppm) total dissolved solids (TDS), coming from a source tapped at one or more boreholes or springs, originating from a geologically and physically protected underground water source. Mineral water shall be distinguished from other types of water by its constant level and relative proportions of minerals and trace elements at the point of emergence from the source, due account being taken of the cycles of natural fluctuations. No minerals may be added to this water.

Sparkling bottled water is bottled water that, after treatment and possible replacement of carbon dioxide, contains the same amount of carbon dioxide that it had at the emergence from the source. Manufacturers may add carbonation to previously non-carbonated bottled water products and label such water appropriately (e.g., sparkling spring water).

Well water or "Artesian" water is bottled water from a well tapping a confined aquifer in which the water level stands at some height above the top of the aquifer. Artesian water may be collected with the assistance of external force to enhance the natural underground pressure.

Ground water is water from a subsurface saturated zone that is under a pressure equal to or greater than atmospheric pressure. Ground water must not be under the direct influence of surface water.

Purified water is bottled water produced by distillation, de-ionization, reverse osmosis, or other suitable process and that meets the definition of purified water.

#### Government Regulation of Bottled Water

Prior to 1996, bottled water was regulated in the same fashion as municipal water. Municipal water is regulated not as a food by the FDA, but as a commodity by the Environmental Protection Agency ("EPA") pursuant to the Safe Drinking Water Act of 1974 ("SDWA"), which only provided for certain mineral/chemical content requirements so as to ensure water safety, not product definition.

In 1996, the United States enacted statutes and regulations to regulate bottled water as a food. Accordingly, the Company's water must meet FDA standards for manufacturing practices and chemical and biological purity. Furthermore, these standards undergo a continuous process of revision. The labels affixed to bottles and other packaging of the water is subject to FDA restrictions on health and nutritional claims for foods.

As of 1996, bottled water is fully regulated as a food by the FDA under the Federal Food, Drug, and Cosmetic Act, which defines food as "articles used for food or drink for man or other animals." This includes packaged (bottled) water sold in containers at retail outlets as well as containers distributed to the home and office market. This legislation was designed to ensure that bottled water companies clearly and accurately define the type of water that was being bottled and sold to the public. The FDA adopted the basic mineral/chemical guidelines employed by the EPA, while making some aspects more stringent.

In addition, all drinking water must meet EPA standards established under the SDWA for mineral and chemical concentration. The 1986 amendments to the SDWA mandated the establishment of new drinking water quality and treatment regulations. Most municipalities meet or exceed EPA drinking water regulations, many of that reflect recent public awareness of the issue of contaminated water-For example, EPA standards for lead in drinking water did not exist prior to 1986, when 50 ppb (parts per billion) was established. This standard was lowered to 15 ppb in 1991, because after five years the government still found 130 million people exposed to unacceptable lead levels.

The United States government also enacted Safe Drinking Water Reauthorization Act of 1996. This law requires all local water utilities to issue annual reports to their consumers disclosing all chemicals and bacteria in their water.

Bottled water is also subject to state and local regulation. Bottled water must originate from an "approved source" in accordance with standards prescribed by the state health department in each of the states in which our products will be sold. The source must be inspected and the water sampled, analyzed and found to be of safe and wholesome quality. There are annual "compliance monitoring tests" of both the source and the bottled water. The health departments of the individual states also govern water purity and safety, labeling of bottled water products and manufacturing practices of producers. Our Mt. Sidney property has been inspected and approved by the Virginia Department of Agriculture as a source of spring water. We are also required to make certain disclosures and disclaimers on our labels.

Compliance with these various regulations has not had, and we do not expect such compliance to have, any material adverse effect on our capital expenditures, net income or competitive position.

#### Competition

The beverage industry, and in particular the bottled water industry, is extremely competitive and seasonal. The leaders in the U.S. bottled water business, based on total estimated sales (at wholesale), according to the Beverage Marketing Corporation, are Aquafina, Dasani, Poland Spring, Arrowhead, Sparkletts, Deer Park and Crystal Geysers. Depending upon the method of entry and plan of action a particular company chooses to employ, it can be very costly to penetrate this market and expand. Our initial focus on the bulk sale of spring water is a relatively low cost plan of action.

#### Marketing Objectives and Advertising Strategy

Our initial marketing strategy is targeted primarily to build awareness of our natural spring water among private label bottlers and to develop our own labeled product for sale. We have recently acquired, and are presently developing, packaging for selling our water under the name "Seawright Springs" and are positioning our water in an effort to compete in the luxury brand category of the water market.

#### Intellectual Property

In June 2005, we purchased intellectual property from Quibell Partners, L.L.C. relating to the creation and bottling of flavored and non-flavored bottled water, including, but not limited to, the following:

- certain trademarks, service marks, trade names, service names and logos;
- various glass bottle designs;
- bottle label designs and artwork for water bottle carrypacks;
- formulas for flavored sparkling water and for teas; and
- web site coding.

We expect that this acquisition will assist us in establishing and growing market share in the bottled water and tea market. We also own the domain name [www.seawrightsprings.com](http://www.seawrightsprings.com).

#### Research and Development

We did not incur any research and development expenses in the last two years.

## Employees

As of December 31, 2006, we had one employee, Joel Sens, who serves as our president, chief executive officer, secretary and treasurer. During 2006, Mr. Sens received an annual salary of \$180,000.

## ITEM 2. PROPERTIES.

Our principal executive offices are located at 600 Cameron Street, Alexandria, Virginia 22314. We lease these facilities on a month-to-month basis at a cost of \$192 per month. We believe these facilities are suitable for our current needs.

In October 2003, we acquired land and a spring located in Mt. Sidney, Virginia for \$1,000,000 and a \$50,000 assignment fee. Stafford Street Capital LLC, a business entirely owned by our principal stockholder, our chief executive officer and director, Joel Sens, contracted to purchase the property in June 2003 and assigned all its interests in the contract in October 2003 to Seawright Springs LLC, our wholly owned subsidiary. At the closing of the property acquisition, \$300,000 was paid in cash, and \$700,000 became subject to a promissory note carrying an interest rate of 6% per annum. Under the terms of the promissory note, \$100,000 plus interest was due and paid in April 2004 and \$200,000 plus interest was due and paid in October 2004. We paid off the remaining amount due under the promissory note, ahead of schedule, using proceeds from our private placement, in the first quarter of 2005. We also were able to negotiate a \$60,000 reduction in the amount of principal owed on the promissory note, which has been accounted for as a gain on the extinguishment of debt. Had we not renegotiated the amount owed and paid the promissory note ahead of schedule, \$162,500 plus interest would have been due in October 2006 and \$237,500 plus interest would have been due in October 2008, the fifth anniversary of the acquisition. The Mt. Sidney property is insured under a general liability policy in the amount of \$1,000,000.

In December 2004, we entered into agreements to acquire two parcels of land located approximately 10 miles south of our Mt. Sidney property. The properties are located in the city of Staunton, Virginia. We closed the purchase on one parcel, which is a 33.52 acre site, 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 was secured by a note on which we were obligated to pay interest at a rate of 8% per annum, payable semiannually, the first payment of interest of which was due and paid on November 20, 2005. During June 2006, we obtained a 9.375% \$525,000 loan to refinance the aforementioned loan which is secured by the property. Under the terms of the new agreement, 35 regular installments of \$4,592 each and one balloon payment equal to the remaining principal balance of the loan, accrued interest, and other applicable fees, costs and charges is due in June 2009. The 33.52 acre property is insured under a general liability policy in the amount of \$1,000,000.

The second parcel is a 3.46 acre site that we agreed to purchase for a purchase price of \$240,000. We paid a refundable \$10,000 deposit on this 3.46 acre site in April 2005. We concluded the study period and closed the purchase of the second parcel of land on April 10, 2006.

Although no assurances can be given, both sites are expected to be re-zoned to commercial use from general agriculture use according to the master zoning plan of the city of Staunton, Virginia. In the future, we may lease these properties for commercial purposes.

In November of 2005, we executed a contract for the purchase of unimproved property in August County, Virginia. The contract provided for a 90-day study period and required us to make a refundable deposit of \$50,000. During the course of the study period, we decided to terminate the contract. We received a refund of our deposit in April of 2006.

#### ITEM 3. LEGAL PROCEEDINGS.

We are not aware of any material litigation or potential litigation affecting us or our assets or any of our subsidiaries.

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

No matters were submitted during the fourth quarter of fiscal year 2006 to a vote of the security holders.

## PART II.

## ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

## Market Information

Prior to January 9, 2004, there was no public trading market for our securities. On January 9, 2004, our securities began trading on the OTC Bulletin Board (“OTCBB”) maintained by members of the National Association of Securities Dealers, Inc. (“NASD”) under the symbol SWRI.OB. As of April 16, 2007, there were approximately 111 holders of record of our common stock.

The following table sets forth the range of high and low bid prices for our common stock for each applicable quarterly period. The table reflects inter-dealer prices without retail mark-up, mark-down or commissions and may not represent actual transactions.

|                | <b>Fiscal Year Ended<br/>December 31, 2006</b> |                 |
|----------------|--|-----------------|
|                | <b>High(\$)*</b>                               | <b>Low(\$)*</b> |
| Fourth Quarter | 0.75   | 0.40            |
| Third Quarter  | 1.00   | 0.60            |
| Second Quarter | 1.50   | 0.60            |
| First Quarter  | 0.75   | 0.45            |

|                | <b>Fiscal Year Ended<br/>December 31, 2005</b> |                 |
|----------------|--|-----------------|
|                | <b>High(\$)*</b>                               | <b>Low(\$)*</b> |
| Fourth Quarter | 1.05   | 0.40            |
| Third Quarter  | 0.85   | 0.70            |
| Second Quarter | 1.00   | 0.65            |
| First Quarter  | 1.05   | 0.40            |

---

\* Quotations provided by YAHOO FINANCE

## Penny Stock Regulation.

Shares of our common stock are subject to rules adopted by the Securities and Exchange Commission that regulate broker-dealer practices in connection with transactions in “penny stocks.” Penny stocks are generally equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the Nasdaq system, provided that current price and volume information with respect to transactions in those securities is provided by the exchange or system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from those rules, deliver a standardized risk disclosure document prepared by the Securities and Exchange Commission, which contains the following:

- a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading;
- a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to violation to such duties or other requirements of securities' laws;
- a brief, clear, narrative description of a dealer market, including "bid" and "ask" prices for penny stocks and the significance of the spread between the "bid" and "ask" price;
  - a toll-free telephone number for inquiries on disciplinary actions;
  - definitions of significant terms in the disclosure document or in the conduct of trading in penny stocks; and
- such other information and is in such form (including language, type, size and format), as the Securities and Exchange Commission shall require by rule or regulation.

Prior to effecting any transaction in penny stock, the broker-dealer also must provide the customer the following:

- the bid and offer quotations for the penny stock;
- the compensation of the broker-dealer and its salesperson in the transaction;
- the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and
  - monthly account statements showing the market value of each penny stock held in the customer's account.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgement of the receipt of a risk disclosure statement, a written agreement to transactions involving penny stocks, and a signed and dated copy of a written suitability statement. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for a stock that becomes subject to the penny stock rules. Holders of shares of our common stock may have difficulty selling those shares because our common stock will probably be subject to the penny stock rules.

#### Dividend Information

We have not declared or paid cash dividends on our common stock or made distributions in the past, and we do not anticipate that we will pay cash dividends or make cash distributions in the foreseeable future. We currently intend to retain and invest future earnings, if any, to finance our operations.

**ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION OR PLAN OF OPERATION.**

As defined under Part I, under Forward-Looking 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 a variety of 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 its 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 expect to offer a non-sparkling brand and to begin selling bottled water under the "Seawright Springs" brand name in May of 2007. 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 this business will require, among other things, further capital expenditure 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 December 31, 2006, 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, both of which have closed, 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 spring from outside elements.

#### Number of Employees

As of December 31, 2006, we had one employee, our chief executive officer and president, Joel Sens. We anticipate that the number of employees may 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 December 31, 2006, but we may enter into an employment contract with him within the next twelve months.

## Comparison of Financial Results

Years Ended December 31, 2006 and 2005

### Revenues

During the years ended December 31, 2006 and 2005, \$3,304 and \$2,524 of revenue, respectively, was generated from the Mt. Sidney spring from on-site sales. We expect to increase our sales in future quarters and will remain a development stage company until revenues increase significantly.

### Costs and Expenses

From our inception through December 31, 2006, we have incurred losses of \$3,799,571. These losses were associated principally with maintenance and engineering costs associated with the spring site, including testing of water quality, stock issuances to our founders, legal, consulting and accounting fees and costs in connection with the development of our business plan, market research, and the preparation of our registration statement.

We incurred operating expenses of \$1,393,009 during the year ended December 31, 2006 as compared to \$946,457 of expenses in during the year ended December 31, 2005. Expenses for the year ended December 31, 2006 are composed principally of salary, legal and accounting fees, financing expense on our funding instruments, and consulting fees.

During the years ended December 31, 2006 and 2005, we incurred a realized net loss of \$1,570 and \$54,592, respectively, from our trading of marketable securities.

### Liquidity and Capital Resources

As of December 31, 2006, we had working capital deficit of \$1,386,875, an available cash balance of \$2,986, a marketable securities balance of \$17,993 and an accounts payable and accrued liabilities balance, including accrued interest on the convertible notes, of \$452,418.

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, none of which 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 \$452,418 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, L.P., or Dutchess, that provides us with an Equity Line of Credit. The investment agreement provides that, following notice to Dutchess, we may require Dutchess to purchase, or put, up to \$5,000,000 in shares of our common stock during the 36-month period following the date on which a registration statement of our common stock is declared effective by the Securities and Exchange Commission. Pursuant to the investment agreement, Dutchess is required to pay a purchase price equal to 95% of the lowest closing best bid price of our common stock on the Over-the-Counter Bulletin Board, or the OTCBB, during the five trading days following that put notice. 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 in no event will the amount Dutchess is required to purchase exceed \$1,000,000 with respect to any single put. We are obligated to register for resale the shares of common stock issuable pursuant to the investment agreement pursuant to a registration rights agreement dated as of September 12, 2005, between Dutchess and us. However, 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, has been accounted for as deferred financing costs to be amortized over the life of the note. An incentive stock liability was recorded to account for our obligation at year end 2006. 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 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 under the purchase agreements for the Staunton, Virginia properties and to fund improvements to our spring site and our initial operations.

We intend to generate these funds 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 herein 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 at December 31, 2006, 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

It is the opinion of the Company that inflation has not had a material effect on its operations.

### Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and judgments that affect our reported assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities. We base our estimates and judgments on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Future events, however, may differ markedly from our current expectations and assumptions. While there are a number of significant accounting policies affecting our consolidated financial statements, we believe the following critical accounting policies involve the most complex, difficult and subjective estimates and judgments:

- stock-based compensation; and
- revenue recognition.

## 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 consolidated financial statements for the year ended December 31, 2006, reflect the impact of SFAS No. 123(R).

Prior to the adoption of SFAS No. 123(R), the Company accounted for stock-based awards to employees using the intrinsic value method in accordance with APB No. 25, as allowed under SFAS No. 123, “Accounting for Stock-Based Compensation.” Under the intrinsic value method, no stock-based compensation expense for employee stock options had been recognized in the Company’s consolidated statements of operations because the exercise price of the Company’s stock options granted to employees equaled the fair market value of the underlying stock at the date of grant. In accordance with the modified prospective transition method the Company used in adopting SFAS No. 123(R), the Company’s results of operations prior to fiscal 2006 have not been restated to reflect, and do not include, the impact of SFAS No. 123(R).

Stock-based compensation expense recognized during a period is based on the value of the portion of stock-based awards that is ultimately expected to vest during the period.

Stock-based compensation expense is measured using a multiple point Black-Scholes option pricing model that takes into account highly subjective and complex assumptions. The expected life of options granted is derived from the vesting period of the award, as well as historical exercise behavior, and represents the period of time that options granted are expected to be outstanding. Expected volatilities are based on a blend of historical volatility and implied volatility derived from publicly traded options to purchase the Company’s common stock, which the Company believes is more reflective of the market conditions and a better indicator of expected volatility than solely using historical volatility. The risk-free interest rate is the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life of the option. There were no employee options granted during 2006 or 2005, and all employee options granted prior to 2005 had fully vested by January 1, 2005.

Stock-based compensation expense related to 75,000 stock options issued to consultants for services rendered as recognized under SFAS No. 123(R) totaled \$38,490 for the year ended December 31, 2006. As of December 31, 2006, all stock options outstanding issued to consultants were fully vested.

## Revenue Recognition

For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition* (“SAB104”), which superseded 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

On February 16, 2006 the FASB issued SFAS 155, “Accounting for Certain Hybrid Instruments,” which amends SFAS 133, “Accounting for Derivative Instruments and Hedging Activities,” and SFAS 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. This statement is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. The Company does not expect its adoption of this new standard to have a material impact on its financial position, results of operations or cash flows.

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement 109”, which provides guidance on the measurement, recognition, and disclosure of tax positions taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, and disclosure. FIN 48 prescribes that a tax position should only be recognized if it is more-likely-than-not that the position will be sustained upon examination by the appropriate taxing authority. A tax position that meets this threshold is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The cumulative effect of applying FIN 48 is to be reported as an adjustment to the beginning balance of retained earnings in the period of adoption. FIN 48 is effective for fiscal years beginning after December 15, 2006. The company is assessing the impact, if any, that the adoption may have on its financial statements.

In March 2006, the FASB issued FASB Statement No. 156, *Accounting for Servicing of Financial Assets* - an amendment to FASB Statement No. 140. Statement 156 requires that an entity recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a service contract under certain situations. The new standard is effective for fiscal years beginning after September 15, 2006. The Company does not expect its adoption of this new standard to have a material impact on its financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (“GAAP”), and expands disclosures about fair value measurements. The Company will be required to adopt SFAS 157 effective for the fiscal year beginning January 1, 2008. The requirements of SFAS 157 will be applied prospectively except for certain derivative instruments that would be adjusted through the opening balance of retained earnings in the period of adoption. The Company is currently evaluating the impact of the adoption of SFAS 157 on the Company’s consolidated financial statements and the management believes that the adoption of SFAS 157 will not have a significant impact on its consolidated results of operations or financial position.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132R* (‘SFAS 158’). SFAS 158 changes current practice by requiring employers to recognize the overfunded or underfunded positions of defined benefit postretirement plans, including pension plans, on the balance sheet. The funded status is defined as the difference between the projected benefit obligation and the fair value of plan assets. SFAS 158 also requires employers to recognize the change in funded status in other comprehensive income (a component of shareholders’ equity). SFAS 158 does not change the requirements for the measurement and recognition of pension expense in the statement of income. SFAS 158 is effective for fiscal years ending after December 15, 2006. The Company does not anticipate any material impact to its financial condition or results of operations as a result of the adoption of SFAS 158.

In September 2006, the Securities and Exchange Commission (the “SEC”) released Staff Accounting Bulletin No. 108 (“SAB 108”), which provides detail in the quantification and correction of financial statement misstatements. SAB 108 specifies that companies should apply a combination of the “rollover” and “iron curtain” methodologies when making determinations of materiality. The rollover method quantifies a misstatement based on the amount of the error originating in the current year income statement. The iron curtain approach quantifies misstatements based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year, regardless of the year(s) of origination. SAB 108 instructs companies to quantify the misstatement under both methodologies and, if either method results in the determination of a material error, the Company must adjust its financial statements to correct the error. SAB 108 also reminds preparers that a change from an accounting principle that is not generally accepted to a principle that is generally accepted is a correction of an error. The Bulletin is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The adoption of this Bulletin did not have a material effect on the Company’s financial condition or results of operations.

In September 2006, the FASB ratified the consensus reached by the EITF on Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements." EITF 06-4 requires the recognition of a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods as defined in SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The EITF reached a consensus that "Company Owned Life Insurance" policies purchased for this purpose do not effectively settle the entity's obligation to the employee in this regard, and thus the entity must record compensation cost and a related liability. Entities should recognize the effects of applying this Issue through either, (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the balance sheet as of the beginning of the year of adoption, or (b) a change in accounting principle through retrospective application to all prior periods. This Issue is effective for fiscal years beginning after December 15, 2007. The Company is assessing the impact, if any, that adoption may have on its financial statements.

In December 2006, the FASB issued FSP EITF 00-19-2, Accounting for Registration Payment Arrangements ("FSP 00-19-2") which addresses accounting for registration payment arrangements. FSP 00-19-2 specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB Statement No. 5, Accounting for Contingencies. FSP 00-19-2 further clarifies that a financial instrument subject to a registration payment arrangement should be accounted for in accordance with other applicable generally accepted accounting principles without regard to the contingent obligation to transfer consideration pursuant to the registration payment arrangement. For registration payment arrangements and financial instruments subject to those arrangements that were entered into prior to the issuance of EITF 00-19-2, this guidance is effective for financial statements issued for fiscal years beginning after December 15, 2006 and interim periods within those fiscal years. The adoption of FSP 00-19-2 is not expected to have a material impact on the Company's financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS 159 permits entities to choose to measure many financial instruments, and certain other items, at fair value. SFAS 159 applies to reporting periods beginning after November 15, 2007. The adoption of SFAS 159 is not expected to have a material impact on the Company's financial condition or 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; uncertainly 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 equity line of credit as described above, but it is possible that the 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*

We may experience significant growth, which would result in increased responsibilities for management and the need for additional employees. We believe that our ability to attract, train, and retain qualified technical, sales, marketing and management personnel will be a critical factor to our future success.

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 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.

For example, in June 2005, we acquired certain trademarks and other intellectual property, including bottle designs and labeling as well as formulas for flavored sparkling water and teas. We expect that this acquisition will assist us in establishing and growing market share in the bottled water and tea market. However, if we are not able to successfully integrate these acquired assets into our business by selling more of our products and increasing our market share, we may not experience a return on investment commensurate with the acquisition cost.

ITEM 7. FINANCIAL STATEMENTS.

Financial statements as of and for the year ended December 31, 2006, and for the year ended December 31, 2005 are presented in a separate section commencing on page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

There have been no changes in or disagreements with our accountants since our formation that are required to be disclosed pursuant to Item 304 of Regulation S-B.

ITEM 8A. CONTROLS AND PROCEDURES.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and regulations, and that such information is accumulated and communicated to our management, including Joel Sens, our chief executive officer and treasurer, as appropriate to allow timely decisions regarding the required disclosures. Any system of controls can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. In addition, the design of any control system is based on certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goal under all potential future conditions.

On April 16, 2007, in filing our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006 (the "Original 10-KSB") and a Current Report on Form 8-K (the "Original 8-K"), we announced that we had concluded that our previously issued financial statements for the years ended December 31, 2005 and 2004 should no longer be relied upon, and restated those financial statements. On June 12, 2006, due to certain errors in the financial statements in the Original 10-KSB, we announced, in an amendment to the Form 8-K (the Original 8-K, as so amended, the "Amended 8-K"), that the financial statements included in the Original 10-KSB should no longer be relied upon. Those financial statements have been restated as of the date hereof in the amendment to the previously-filed Form 10-KSB (the Original 10-KSB, as so amended, the "Amended 10-KSB"). In addition, in the Amended 8-K, we acknowledged that there were errors in our financial statements related to our Quarterly Reports on Form 10-QSB for the fiscal quarters ended March 31, 2005, June 30, 2005 and September 30, 2005, but determined that these errors did not affect those financial statements in such a material way as to require amending those quarterly reports.

The restatements changed, and the other error corrections will change, the accounting treatment afforded to our August 2004 private placement, the termination agreement (sometimes referred to as the put agreement) entered into with a shareholder in October 2004, our overpayment of amounts owed to a shareholder, and our proceeds from the sale of trading securities, and are further described in Note Q to our Consolidated Financial Statements for the years ended December 31, 2005 and 2004, as contained in the Amended 10-KSB, as well the Amended 8-K.

Our chief executive officer and treasurer (our principal financial officer) has evaluated, as of December 31, 2006, the effectiveness of the design, maintenance and operation of the Company's disclosure controls and procedures. Based on that evaluation, and as a result of the weaknesses that resulted in the restatements and other expected changes described above, our chief executive officer and treasurer has determined that our disclosure controls and procedures were not effective, at a reasonable assurance level, 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. Notwithstanding those weaknesses, we believe that our Consolidated Financial Statements for the years ended December 31, 2006 and 2005, as contained in the 10-KSB, fairly present, in all material respects, our financial position, results of operations and cash flows for all periods presented therein.

During the year ended December 31, 2006, there were no changes in internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, except as follows.

Our management is in the process of identifying deficiencies with respect to our disclosure controls and procedures and implementing corrective measures, which includes the establishment of new internal policies related to financial reporting.

Our chief executive officer and treasurer also conducted an evaluation of the Company's internal controls over financial reporting to determine whether any changes occurred during the fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. During the preparation of the Company's financial statements as of and for the year ended December 31, 2006, the Company identified the internal control weaknesses identified below. As a result of this conclusion, the Company has initiated the changes in internal control, to the extent possible given limitations in financial and manpower resources, also described below.

The Company became aware of its staffing needs and took steps to address its understaffed Finance and Accounting team to correct this material weakness. The Company engaged a professional services firm with extensive CFO-level management and SEC reporting experience in public companies. The Company feels this addition to the Company's Finance and Accounting team will improve the quality of future period financial reporting. Management identified a material weakness based on the Company's delay in closing its books. To correct this material weakness, checklists will be developed delineating tasks, preparation responsibilities, and review responsibilities targeting specific completion dates. The checklist will provide evidentiary support of work performed and reviewed. Specific checklists will be developed for non-quarter end months, quarter end months, and the annual close. These checklists have been developed and were implemented in the 2nd quarter 2006 close process and utilized in the preparation of the 2nd quarter 2006 Form 10-QSB and subsequent period ends.

### PART III.

#### ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

##### Officers and Directors.

The names, ages, and respective positions of our directors, executive officers, and key employees are set forth below. We have no other promoters or control persons. The directors named below will serve until our next annual stockholders meeting or until their successors are duly elected and qualified. Directors are elected for a one-year term at the annual stockholders' meeting. Officers hold their positions at the will of the board of directors, absent any employment agreement.

At beginning of 2005, Joel Sens was the sole director of the Company. Following the closing of our private placement in January 2005, the Company added two new directors, Ronald Attkisson and Jeffrey Sens.

As of February 28, 2007, Ronald Attkisson resigned as a director of the Company.

##### Committees of the Board of Directors.

We do not presently have any active committees.

##### Compensation of Directors

Beginning with the first quarter of 2006, each director will be compensated at a annual rate of \$7,500, paid quarterly, and are reimbursed for reasonable travel and other out-of-pocket expenses incurred in attending meetings of the board.

Joel Sens, President, Chief Executive Officer, Treasurer and Secretary /Director

Mr. Joel Sens, age 42, is the current president, chief executive officer, treasurer and secretary and has served in those positions since 2004. Mr. Sens has also been a director of the Company since our inception. Mr. Sens is an entrepreneur who was a founder of Next Generation Media Corp., a publicly held media holding company, in March 1997. From January 1994 through March 1997, Mr. Sens acted as a consultant specializing in barter transactions and engaged in financial transactions involving the purchase and sale of newspaper companies, radio stations, and barter companies.

Jeffrey Sens, Director

Mr. Jeffrey Sens, age 42, previously served as a director from 1999 to 2004 and became a director again in January 2005. He currently holds a senior operations position in the FedEx Ground Division of FedEx Corp, which he has held since 2001. From 1997 to 2001, Jeffrey Sens was vice president of Operations for Top Driver Inc., a national driver training products and services company that partners with Ford Motor Company. Prior to working at Top Driver Inc., Jeffrey Sens held a variety of senior operations management positions with prominent consumer product companies such as Sara Lee Corp. (1995-1997) and President International Corp. (1992-1995). Jeffrey Sens has a Bachelor of Science in Industrial Engineering from the University of Toledo and an MBA from Clemson University. Jeffrey Sens is the brother of Joel Sens.

Section 16(a) Beneficial Ownership Reporting Compliance.

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own more than ten percent (10%) of a registered class of our equity securities (collectively, the "Reporting Persons") to file reports of changes in ownership of such securities with the Securities and Exchange Commission and the Company. Based solely on a review of (i) any Forms 3 and 4 and amendments thereto furnished to us pursuant to Rule 16a-3(e), promulgated under the Exchange Act, during our fiscal year ended December 31, 2006 and (ii) any Forms 5 and amendments thereto and/or written representations furnished to the Company by any Reporting Persons stating that such person was not required to file a Form 5 during our fiscal year ended December 31, 2006, it has been determined that no Reporting Persons were delinquent with respect to such person's reporting obligations set forth in Section 16(a) of the Exchange Act.

Code of Ethics

We have not adopted a formal code of ethics that applies to our directors, officers or employees. We are a development stage company with no principal operating activities and limited resources. We also have only one employee, who holds all of our officer positions. Because of these factors, we have not yet adopted a formal code of ethics, but we expect to adopt such a code in the future.

## ITEM 10. EXECUTIVE COMPENSATION.

Joel Sens received compensation totaling \$420,000 in respect of his services during the last three full fiscal years. Joel Sens received total compensation of \$90,000 in respect of services performed by him from 2002 to 2004 and received \$150,000 and \$180,000 in respect of services performed by him in 2005 and 2006, respectively. There have been no other awards or stock based compensation in the last three fiscal years.

Although no formal employment agreement has been entered into with Joel Sens, he currently receives an annual salary of \$180,000 per year.

The table set forth below summarizes the annual and long-term compensation paid by us during the years ended December 31, 2006, 2005 and 2004 to or for the account of Joel Sens, our chief executive officer, president, treasurer and secretary.

## SUMMARY COMPENSATION TABLE

| Name and<br>Principal<br>Position | Year | Annual Compensation |               |                                      | Long-Term Compensation                  |                                     |                         | All Other<br>Compensation |
|-----------------------------------|------|---------------------|---------------|--------------------------------------|---|-------------------------------------|-------------------------|---------------------------|
|                                   |      | Salary<br>(\$)      | Bonus<br>(\$) | Other Annual<br>Compensation<br>(\$) | Awards                                  | Securities                          | Payouts                 |                           |
|                                   |      |                     |               |                                      | Restricted<br>Stock<br>Award(s)<br>(\$) | Underlying<br>Options /<br>SARs (#) | LTIP<br>Payouts<br>(\$) |                           |
| Joel Sens,<br>CEO                 | 2006 | 180,000             | 0             | 0                                    | 0                                       | 0                                   | 0                       | 0                         |
|                                   | 2005 | 150,000             | 0             | 0                                    | 0                                       | 0                                   | 0                       | 0                         |
|                                   | 2004 | 90,000              | 0             | 0                                    | 0                                       | 0                                   | 0                       | 0                         |

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR  
AND FY-END OPTION/SAR VALUES

| Name           | Shares Acquired on<br>Exercise (#) | Value Realized (\$) | Number of<br>Securities<br>Underlying<br>Unexercised<br>Options/SARs At<br>FY-End (#)<br>Exercisable /<br>Unexercisable | Value of<br>Unexercised<br>In-The-Money<br>Options/SARs At<br>FY-End (\$)<br>Exercisable /<br>Unexercisable |
|----------------|------------------------------------|---------------------|---|---|
| Joel Sens, CEO | 0                                  | 0                   | 1,500,000/0   | \$ 0 <sup>(1)</sup> /0  |

(1) This amount is calculated by valuing the Company's shares at \$0.48/share, based on the average of the bid and ask prices at December 31, 2006.

Under an October 2000 subscription agreement with Joel Sens, we issued 3,000,000 shares of our common stock to Joel Sens, as founder, at a price of \$0.001 per share. In addition, under the October 2000 subscription agreement, we granted Joel Sens stock options exercisable for 1,500,000 shares of our common stock, as follows:

- 400,000 shares of our common stock at \$0.50 per share;
- 300,000 shares of our common stock at \$1.00 per share;
- 300,000 shares of our common stock at \$1.75 per share; and
- 500,000 shares of our common stock at \$2.00 per share.

Joel Sens has not exercised any of these options. Stock options previously issued for Darryl Reed were cancelled in an agreement dated September 2003 between Darryl Reed and us.

#### ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth information regarding the beneficial ownership of shares of our common stock as of April 16, 2007 (issued and outstanding) by (i) all stockholders known to the Company to be the beneficial owner of more than five percent of the Company's outstanding common stock; and (ii) all directors and executive officers of the Company individually and as a group:

| Title of Class | Name and Address of Beneficial Owner(1)                                 | Amount and Nature of Beneficial Ownership(2) | Percent of Class (2) |
|----------------|---|--|----------------------|
| Common Stock   | Joel Sens<br>600 Cameron Street<br>Alexandria VA<br>22314               | 4,958,434<br>(3)                             | 37.01 %              |
| Common Stock   | Jeffrey Sens<br>1210 Springtree<br>Lane<br>Westerville, Ohio<br>43801   | 2,100  | 0.02 %               |
| Common Stock   | All executive<br>officers<br>and directors as a<br>group<br>(2 persons) | 4,960,534                                    | 37.03 %              |

\* less than 1%

(1) Each person has sole voting power and sole dispositive power as to all of the shares shown as beneficially owned by them.



(2) Other than as footnoted below, none of these security holders has the right to acquire any shares within sixty days from options, warrants, rights, conversion privilege, or similar obligations. The amount owned and the stockholder's percentage ownership is based on issued common stock, as well as stock options and warrants that are currently exercisable.

(3) Included within this amount are stock options granted to Joel Sens, as part of his October 2000 subscription agreement. These stock options are exercisable for 1,500,000 shares of our common stock as described under "Executive Compensation" above. Also included within this amount is 71,000 shares owned by Stafford Street Capital LLC, an entity wholly owned by Joel Sens.

Securities Authorized for Issuance Under Equity Compensation Plans

The following information is provided for the fiscal year ended December 31, 2006, with respect to compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance, aggregated as follows:

- (i) All compensation plans (including individual compensation arrangements) previously approved by our stockholders; and
- (ii) All compensation plans (including individual compensation arrangements) not previously approved by our stockholders.

EQUITY COMPENSATION PLAN INFORMATION

|  | Number of securities to<br>be issued upon exercise<br>of outstanding options,<br>warrants and rights<br>(a) | Weighted-average<br>exercise price of<br>outstanding options,<br>warrants and rights (b) | Number of securities<br>remaining available for<br>future issuance under equity<br>compensation plans<br>(excluding securities<br>reflected in column (a))<br>(c) |
|--|---|--|---|
| Equity compensation plans approved by stockholders     | 0   | 0  | 0   |
| Equity compensation plans not approved by stockholders | 1,500,000   | 1.35   | 0   |
| Total  | 1,500,000   | 1.35   | 0   |

Under the October 2000 subscription agreement, we granted Mr. Sens stock options exercisable for 1,500,000 shares of our common stock as described under “Executive Compensation” above.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Related Party Transactions.

Our President and principal shareholder Joel Sens had advanced funds to the Company for working capital purposes. We had paid in full the amount due to Joel Sens during the years ended December 31, 2004. Additionally, the total payment we remitted exceeded the total balance due to Joel Sens in the amount of \$42,951, \$50,500 and \$144,006 during the years ended December 31, 2006, 2005 and 2004, respectively. We have accounted for the excess payments to Joel Sens as a nonreciprocal transfer to a shareholder for 2006, 2005 and 2004 and, accordingly, has reflected the overpayment as a direct reduction of additional paid-in capital.

During 2005, Joel Sens contributed capital of \$140,000 to us in direct response to the excess payment. We have accounted for the net contribution of \$89,500 as an addition to paid-in capital.

During 2006, Joel Sens contributed capital of \$54,505 to us in direct response to the excess payment. We have accounted for the contribution as an addition to paid-in capital.



One of our directors, Ronald L. Attkisson, is also the principal stockholder of Jones, Byrd and Attkisson, which, from August 2004 until February 2005, acted as placement agent for our private placement. In connection with its role as placement agent, Jones, Byrd and Attkisson received a fee of \$299,700 and was issued 594,000 warrants exercisable for 594,000 shares of our common stock at \$0.85 per share. Jones, Byrd and Attkisson is also acting as placement agent under the investment agreement with regard to the equity line of credit. Under our placement agent agreement for the equity line of credit, we agreed to pay Jones, Byrd and Attkisson 1% of the gross proceeds from each put exercised under the investment agreement.

Joel Sens, our only officer and one of our directors, is engaged in other businesses, either individually or through partnerships and corporations in which he has an interest, holds office, or serves on a board of directors. As a result, certain conflicts of interest may arise between us and Joel Sens. We will attempt to resolve such conflicts of interest in our favor. Joel Sens is accountable to us and our stockholders as a fiduciary, and is required to exercise good faith and integrity in handling our affairs. A stockholder may be able to institute legal action on behalf of the Company or on behalf of himself or herself and other similarly situated stockholders to recover damages or for other relief in cases of the resolution of conflicts is in any manner prejudicial to us.

#### PART IV.

#### ITEM 13. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

##### (a) Exhibits.

Exhibits included or incorporated by reference in this document are set forth in the Exhibit Index.

#### EXHIBIT INDEX

| <u>Exhibit No.</u> | <u>Description</u>   |
|--------------------|--|
| 3.1                | Amended and Restated Certificate of Incorporation of Pre-Settlement Funding Corporation. <sup>(1)</sup>                          |
| 3.2                | Certificate of Designation of Series A Convertible Preferred Shares of Seawright Holdings, Inc. <sup>(1)</sup>                   |
| 3.3                | Amended and Restated By-laws of Seawright Holdings, Inc. <sup>(1)</sup>  |
| 4.1                | Form of Common Stock Certificate. <sup>(2)</sup>   |
| 4.2                | Amended Form of Subscription Agreement. <sup>(3)</sup>   |
| 4.3                | Form of 10% Convertible Note. <sup>(4)</sup>   |
| 4.4                | Form of Registration Agreement relating to the 10% Convertible Notes. <sup>(5)</sup>   |
| 4.5                | Subscription Agreement dated October 26, 2000 by and between Pre-Settlement Funding Corporation and Joel P. Sens. <sup>(6)</sup> |
| 4.6                | Subscription Agreement dated October 26, 2000 by and between Pre-Settlement Funding Corporation and Darryl Reed. <sup>(7)</sup>  |

- 4.7 Form of Common Stock Purchase Option.<sup>(8)</sup>
- 4.8 Form of Amended Escrow Agreement by and between Pre-Settlement Funding Corporation, Three Arrows Capital Corp. and The Business Bank.<sup>(9)</sup>

31

---

- 9 Stockholder Agreement by and among Pre-Settlement Funding Corporation, Joel P. Sens and Darryl W. Reed, dated October 26, 2000.<sup>(10)</sup>
- 10.1 Form of Purchase and Security Agreement.<sup>(11)</sup>
- 10.2 Employment Agreement between Pre-Settlement Funding Corporation and Joel Sens dated October 1, 2000.<sup>(12)</sup>
- 10.3 Letter by Typhoon Capital Consultants, LLC to Pre-Settlement Funding Corporation on December 11, 2001 withdrawing as a consultant to Pre-Settlement Funding Corporation and waiving all rights to any cash or equity compensation owed to it by Pre-Settlement Funding Corporation except for the fifty thousand (50,000) shares already issued to Typhoon Capital Consultants, LLC.<sup>(13)</sup>
- 10.4 Form of Consultant Agreement dated January 8, 2001 between Pre-Settlement Funding Corporation and Chukwuemeka A. Njoku.<sup>(14)</sup>
- 10.5 Letter Agreement for consulting services dated August 31, 2000 between Pre-Settlement Funding Corporation and Graham Design, LLC.<sup>(15)</sup>
- 10.6 Letter Agreement for consulting services dated June 13, 2000, between Pre-Settlement Funding Corporation and Baker Technology, LLC.<sup>(16)</sup>
- 10.7 Purchase and Sale Agreement by and between Baker Seawright Corporation, Seller and Stafford Street Capital, LLC.<sup>(1)</sup>
- 10.8 Amendment to Purchase and Sale Agreement.<sup>(1)</sup>
- 10.9 Assignment of Contract pursuant to Purchase and Sale Agreement.<sup>(1)</sup>
- 10.10 Confidential Private Placement Memorandum of Seawright Holdings, Inc. dated August 20, 2004.<sup>(17)</sup>
- 10.11 David Levy Termination Agreement dated October 1, 2004.<sup>(18)</sup>
- 10.12 Contract for Purchase of Unimproved Property dated as of November 23, 2004, by and between A.B.C. Farms, LLC and Seawright Holdings, Inc.<sup>(19)</sup>
- 10.13 Contract for Purchase of Unimproved Property dated as of February 24, 2005, by and between Robert J. Daly et al and Seawright Holdings, Inc.<sup>(20)</sup>
- 10.14 Note dated May 20, 2005, by Seawright Holdings, Inc. to A.B.C. Farms, LLC.<sup>(21)</sup>
- 10.15 Asset Purchase Agreement dated as of June 27, 2005, by and between Seawright Holdings, Inc. and QuiBell Partners, L.L.C.<sup>(22)</sup>
- 10.16 Investment Agreement dated as of September 12, 2005, by and between Seawright Holdings, Inc. and Dutchess Private Equities Fund, L.P.<sup>(23)</sup>



Edgar Filing: SEAWRIGHT HOLDINGS INC - Form 10KSB

- 10.17 Registration Rights Agreement dated as of September 12, 2005, by and between Seawright Holdings, Inc. and Dutchess Private Equities Fund, L.P.<sup>(23)</sup>
- 10.18 Placement Agent Agreement dated as of September 12, 2005, by and between Seawright Holdings, Inc. and Jones, Byrd and Attkisson, Inc.<sup>(23)</sup>
- 10.19 Consulting Agreement dated as of May 1, 2006, by and between Seawright Holdings, Inc. and National Financial Communications Corp.<sup>(25)</sup>
- 10.19.1 Amendment to Consulting Agreement dated as of September 6, 2006, by and between Seawright Holdings, Inc. and National Financial Communications Corp.<sup>(26)</sup>
- 10.20 Deed of Trust Note dated June 8, 2006, by and between Seawright Holdings, Inc. and Charter House, LLC.<sup>(27)</sup>
- 10.21 Business Loan Agreement (including the related Promissory Note and Commercial Guaranty) dated June 29, 2006, by and between Seawright Holdings, Inc. and Fidelity & Trust Bank.<sup>(28)</sup>
- 10.22 Modification Agreement to the Deed of Trust Note dated June 8, 2006, by and between the Seawright Holdings, Inc., Palma Collins as Trustee and Charter House, LLC.<sup>(29)</sup>
- 10.23 Engagement letter, by and between Sequence Investment Partners, LLC, and Seawright Holdings, Inc.<sup>(30)</sup>
- 10.24 Promissory Note, by and between Dutchess Private Equities, Fund, L.P. and Seawright Holdings, Inc.<sup>(31)</sup>
- 21 Subsidiaries of the Registrant.<sup>(24)</sup>
- 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.

---

# Filed herewith.

- (1) Incorporated by reference from Form 8-K as filed with the SEC on October 24, 2003.
- (2) Incorporated by reference from exhibit 4(i) of Form 10-QSB as filed with the SEC on May 23, 2005.
- (3) Incorporated by reference from exhibit 4(i) of Amendment No. 1 to the Registration Statement on Form SB-2 as filed with the SEC on July 6, 2001.
- (4) Incorporated by reference from exhibit 4(ii) of Registration Statement on Form SB-2 as filed with the SEC on March 9, 2001.
- (5) Incorporated by reference from exhibit 4(iii) of Registration Statement on Form SB-2 as filed with the SEC on March 9, 2001.
- (6) Incorporated by reference from exhibit 4(iv) of Registration Statement on Form SB-2 as filed with the SEC on March 9, 2001.
- (7) Incorporated by reference from exhibit 4(v) of Registration Statement on Form SB-2 as filed with the SEC on March 9, 2001.
- (8) Incorporated by reference from exhibit 4(vi) of Registration Statement on Form SB-2 as filed with the SEC on March 9, 2001.



Edgar Filing: SEAWRIGHT HOLDINGS INC - Form 10KSB

- (9) Incorporated by reference from exhibit 4(vii) of Amendment No. 1 to the Registration Statement on Form SB-2 as filed with the SEC on July 6, 2001.
- (10) Incorporated by reference from exhibit 9 of Registration Statement on Form SB-2 as filed with the SEC on March 9, 2001.
- (11) Incorporated by reference from exhibit 10(i) of Registration Statement on Form SB-2 as filed with the SEC on March 9, 2001.
- (12) Incorporated by reference from exhibit 10(iii) of Registration Statement on Form SB-2 as filed with the SEC on March 9, 2001.
- (13) Incorporated by reference from exhibit 10(iv) of Amendment No. 5 to the Registration Statement on Form SB-2 as filed with the SEC on January 16, 2002.
- (14) Incorporated by reference from exhibit 10(v) of Amendment No. 1 to the Registration Statement on Form SB-2 as filed with the SEC on July 6, 2001.
- (15) Incorporated by reference from exhibit 10(vi) of Amendment No. 1 to the Registration Statement on Form SB-2 as filed with the SEC on July 6, 2001.
- (16) Incorporated by reference from exhibit 10(vii) of Amendment No. 1 to the Registration Statement on Form SB-2 as filed with the SEC on July 6, 2001.
- (17) Incorporated by reference from exhibit 10 of Form 10-QSB as filed with the SEC on November 21, 2005.
- (18) Incorporated by reference from Form S-8 POS as filed with the SEC on February 7, 2005.
- (19) Incorporated by reference from exhibit 10(i) of Form 10-QSB as filed with the SEC on May 23, 2005.
- (20) Incorporated by reference from exhibit 10(ii) of Form 10-QSB as filed with the SEC on May 23, 2005.
- (21) Incorporated by reference from Form 8-K as filed with the SEC on June 2, 2005.
- (22) Incorporated by reference from Form 8-K as filed with the SEC on June 30, 2005.
- (23) Incorporated by reference from Form 8-K as filed with the SEC on September 16, 2005.
- (24) Incorporated by reference from exhibit 21 of Form 10-KSB as filed with the SEC on April 15, 2005.
- (25) Incorporated by reference from Form 8-K as filed with the SEC on June 2, 2006.
- (26) Incorporated by reference from Form 8-K as filed with the SEC on September 11, 2006.
- (27) Incorporated by reference from Form 8-K as filed with the SEC on June 15, 2006.
- (28) Incorporated by reference from Form 8-K as filed with the SEC on July 6, 2006.
- (29) Incorporated by reference from Form 8-K as filed with the SEC on October 11, 2006.
- (30) Incorporated by reference from Form 8-K as filed with the SEC on December 11, 2006.
- (31) Incorporated by reference from Form 8-K as filed with the SEC on December 11, 2006.

33

---

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The following table sets forth fees billed to the Company by our auditors during the fiscal years ended December 31, 2006 and 2005 for: (i) services rendered for the audit of our annual financial statements and the review of our quarterly financial statements, (ii) services by our auditor that are reasonably related to the performance of the audit or review of our financial statements and that are not reported as Audit Fees, (iii) services rendered in connection with tax compliance, tax advice and tax planning, and (iv) all other fees for services rendered.

|                       | December<br>31, 2006 | December<br>31, 2005 |
|-----------------------|----------------------|----------------------|
| 1. Audit Fees         | \$ 68,750            | \$ 50,350            |
| 2. Audit Related Fees | --                   | --                   |
| 3. Tax Fees           | --                   | --                   |
| 4. All Other Fees     | --                   | --                   |
| Total Fees            | \$ 68,750            | \$ 50,350            |

Audit fees consist of fees billed for professional services rendered for the audit of the Company's consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by Russell Bedford Stefanou Mirchandani LLP in connection with statutory and regulatory filings or engagements.

Audit-related fees consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements, which are not reported under "Audit Fees."

Tax fees consists of fees billed for professional services for tax compliance, tax advice and tax planning.

All other fees consist of fees for products and services other than the services reported above.

Prior to engaging our accountants to perform a particular service, our board of directors obtains an estimate for the service to be performed. All of the services described above were approved by the board of directors in accordance with its procedures

SIGNATURES

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

Date: April 17, 2007

Seawright Holdings, Inc.  
a Delaware Corporation

By: /s/ Joel Sens

Joel Sens

Title: Chief Executive Officer

In accordance with the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: April 17, 2007

By: /s/ Joel Sens

Joel Sens

Title: Chief Executive Officer,

President, Treasurer

(principal financial and  
accounting officer) and

Director

Date: April 17, 2007

By: /s/ Jeffrey Sens

Jeffrey Sens

Title: Director

***CONSOLIDATED FINANCIAL STATEMENTS***

***YEARS ENDED  
DECEMBER 31, 2006 AND 2005***

***SEAWRIGHT HOLDINGS, INC.***

---

**SEAWRIGHT HOLDINGS, INC.**  
(A DEVELOPMENT STAGE COMPANY)

**INDEX TO FINANCIAL STATEMENTS**

|   | <b>Page</b> |
|---|-------------|
| Report of Independent Registered Certified Public Accounting Firm   | F-3         |
| Consolidated Balance Sheets as of December 31, 2006 and 2005  | F-4-5       |
| Consolidated Statements of Operations for the Years Ended<br>December 31, 2006 and 2005 and for the Period From Inception<br>(October 14, 1999) Through December 31, 2006 | F-6-7       |
| Consolidated Statements of (Deficiency in) Stockholders' Equity for<br>the Period From Inception (October 14, 1999) Through<br>December 31, 2006                          | F-8-11      |
|   | F-12-15     |
| Consolidated Statements of Cash Flows for the Years Ended<br>December 31, 2006 and 2005 and for the Period From Inception<br>(October 14, 1999) Through December 31, 2006 |             |
| Notes to the Consolidated Financial Statements  | F-16-34     |

RUSSELL BEDFORD STEFANOU MIRCHANDANI , LLP  
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

Board of Directors  
Seawright Holdings, Inc.  
Alexandria, VA

We have audited the accompanying consolidated balance sheets of Seawright Holdings Inc. and subsidiary, a development stage company, (the "Company") as of December 31, 2006 and 2005 and the related consolidated statements of operations, (deficiency in) stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2006 and for the period from October 14, 1999 (date of inception) to December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Seawright Holdings Inc. and subsidiary as of December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2006, and for the period October 14, 1999 (date of inception) to December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment", effective January 1, 2006.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the consolidated financial statements, the Company has incurred net losses since its inception. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to this matter are described in Note O. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ RUSSELL BEDFORD STEFANOU MIRCHANDANI LLP

Russell Bedford Stefanou Mirchandani LLP  
Certified Public Accountants

McLean, Virginia  
April 14, 2007

SEAWRIGHT HOLDINGS, INC.  
 (A DEVELOPMENT STAGE COMPANY)  
 CONSOLIDATED BALANCE SHEETS  
 DECEMBER 31, 2006 AND 2005

|  | <b>2006</b>      | <b>2005</b>      |
|--|------------------|------------------|
| <b>ASSETS</b>  |                  |                  |
| Current assets:  |                  |                  |
| Cash and cash equivalents  | \$ 2,986         | \$ 130,857       |
| Marketable securities (Note B)                                     | 17,993           | 138,910          |
| Deferred financing costs - net (Note D)                            | 325,136          | 140,289          |
| Deposits   | 65,300           | 125,300          |
| <br>Total current assets   | <br>411,415      | <br>535,356      |
| <br>Property and equipment - net (Note C)                          | <br>2,110,037    | <br>1,775,669    |
| <br>Deferred financing costs - net - less current portion (Note D) | <br>226,671      | <br>366,958      |
| <br>Intangible asset (Note D)                                      | <br>27,343       | <br>35,156       |
| <br>Total assets   | <br>\$ 2,775,466 | <br>\$ 2,713,139 |

The accompanying notes are an integral part of these consolidated financial statements.

SEAWRIGHT HOLDINGS, INC.  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED BALANCE SHEETS (CONTINUED)  
DECEMBER 31, 2006 AND 2005

## LIABILITIES AND (DEFICIENCY IN) STOCKHOLDERS' EQUITY

|  | <b>2006</b>  | <b>2005</b>  |
|--|--------------|--------------|
| Current liabilities:   |              |              |
| Bank overdraft   | \$ 7,227     | \$ -         |
| Incentive stock liability (Note E)   | 127,500      | -            |
| Accounts payable and accrued expenses  | 452,418      | 120,445      |
| Note payable, current portion (Note E)   | 1,179,950    | 500,000      |
| Total current liabilities  | 1,767,095    | 620,445      |
| Long-term liabilities  |              |              |
| Note payable - long-term portion (Note E)  | 518,022      | -            |
| Convertible notes payable, net of debt discount (Note F)   | 1,190,024    | 1,077,944    |
| Other long-term liabilities (Note D)   | 34,200       | 30,683       |
| Total liabilities  | 3,509,341    | 1,729,072    |
| Commitment and contingencies (Note M)  |              |              |
| (DEFICIENCY IN) STOCKHOLDERS' EQUITY   |              |              |
| Preferred stock, par value \$.001 per share;<br>100,000 shares authorized.   | -            | -            |
| Series A convertible preferred stock, par value<br>\$.001 per share; 60,000 authorized. (Note G)   | -            | -            |
| Common stock, par value \$.001 per share;<br>19,900,000 shares authorized; 8,935,474 and<br>8,875,476 shares issued and outstanding at<br>December 31, 2006 and 2005, respectively. (Note G) | 8,936        | 8,876        |
| Additional paid-in-capital   | 3,081,760    | 3,014,376    |
| Preferred stock dividend   | (25,000)     | (25,000)     |
| Accumulated deficit during development stage   | (3,799,571)  | (2,014,185)  |
| Total (deficiency in) stockholders' equity   | (733,875)    | 984,067      |
| Total liabilities and (deficiency in) stockholders' equity   | \$ 2,775,466 | \$ 2,713,139 |

The accompanying notes are an integral part of these consolidated financial statements.



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

|  | 2006           | 2005           | For the period<br>from<br>October 14,<br>1999<br>(date of<br>inception)<br>through<br>December 31,<br>2006 |
|--|----------------|----------------|--|
| Sales, net   | \$ 3,304       | \$ 2,524       | \$ 5,828   |
| Costs and expenses:  |                |                |  |
| Selling, general and administrative  | 1,380,949      | 885,327        | 3,873,792  |
| (Gain) loss on trading securities  | 1,570          | 54,592         | (37,356)   |
| Depreciation and amortization  | 10,490         | 6,538          | 17,445   |
|  | 1,393,009      | 946,457        | 3,853,881  |
| Operating loss   | (1,389,705)    | (943,933)      | (3,848,053)  |
| Other income (expense):  |                |                |  |
| Other income   | 21             | 1,000          | 61,969   |
| Gain (loss) on fair value adjustment for put agreement                             | -              | 68,752         | -  |
| Gain on extinguishment of debt   | -              | 60,000         | 807,103  |
| Interest expense, net  | (395,702)      | (301,867)      | (837,491)  |
| Total other income (expense)   | (395,681)      | (172,115)      | 31,581   |
| Loss from continuing operations before income taxes<br>and discontinued operations | (1,785,386)    | (1,116,048)    | (3,816,472)  |
| Provision for income tax   | -              | -              | -  |
| Loss from continuing operations before<br>discontinued operations                  | (1,785,386)    | (1,116,048)    | (3,816,472)  |
| Income from discontinued operations  | -              | -              | 16,901   |
| Net loss   | (1,785,386)    | (1,116,048)    | (3,799,571)  |
| Preferred stock dividend   | -              | -              | (25,000)   |
| Net loss attributable to common shareholders                                       | \$ (1,785,386) | \$ (1,116,048) | \$ (3,824,571)   |
| Losses per common share  |                |                |  |

Edgar Filing: SEAWRIGHT HOLDINGS INC - Form 10KSB

|  |    |           |           |
|--|----|-----------|-----------|
| Continuing operations                      |    |           |           |
| Basic                                      | \$ | (0.20)    | \$ (0.13) |
| Assuming dilution                          | \$ | (0.20)    | \$ (0.13) |
| Weighted average common shares outstanding |    | 9,005,009 | 8,874,462 |

The accompanying notes are an integral part of these consolidated financial statements.

F-6

---

SEAWRIGHT HOLDINGS, INC.  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF (DEFICIENCY IN) SHAREHOLDERS' EQUITY  
FOR THE PERIOD OCTOBER 14, 1999 (DATE OF INCEPTION) TO DECEMBER 31, 2006

|  | 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    |
| Net loss   | -                                | -               | -                | -                         | -                                | -                                | -                              | -  | (556,921) | (556,921) |

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

The accompanying notes are an integral part of these consolidated financial statements.

F-7

---

SEAWRIGHT HOLDINGS, INC.  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF (DEFICIENCY IN)  
SHAREHOLDERS' EQUITY (CONTINUED)  
FOR THE PERIOD OCTOBER 14, 1999 (DATE OF INCEPTION) TO DECEMBER 31, 2006

|   | Preferred<br>Preferred<br>Shares | Preferred<br>Stock<br>Amount | Common<br>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<br>exchange<br>for cash at \$5 per<br>share  | 55,000                           | 55                           | -                          | -                         | 274,945                          | -                               | -                              | -  | 275,000      |
| Stock options<br>issued in<br>exchange 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<br>with private<br>placement<br>Conversion of<br>preferred stock to | -                                | -                            | 2,404,978                  | 2,405                     | 1,359,491                        | 25,581                          | -                              | -  | 1,387,477    |

Edgar Filing: SEAWRIGHT HOLDINGS INC - Form 10KSB

|  |          |      |           |          |              |           |             |              |              |
|--|----------|------|-----------|----------|--------------|-----------|-------------|--------------|--------------|
| common stock   | (50,000) | (50) | 500,000   | 500      | (450)        | -         | -           | -            | -            |
| 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   | -        | -    | -         | -        | -            | -         | -           | (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 |

The accompanying notes are an integral part of these consolidated financial statements.

SEAWRIGHT HOLDINGS, INC.  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF (DEFICIENCY IN)  
SHAREHOLDERS' EQUITY (CONTINUED)  
FOR THE PERIOD OCTOBER 14, 1999 (DATE OF INCEPTION) TO DECEMBER 31, 2006

|   | Preferred<br>Stock<br>Shares | Preferred<br>Stock<br>Amount | Common<br>Stock<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        |
| Contributed capital   | -                            | -                            | -                         | -                         | 3,020                            | -                               | -                              | -  | 3,020        |
| Expiration of put<br>agreement  | -                            | -                            | -                         | -                         | 89,500                           | -                               | -                              | -  | 89,500       |
| Net loss  | -                            | -                            | -                         | -                         | -                                | -                               | -                              | (1,116,048)  | (1,116,048)  |
| <b>Balance at<br/>December 31,<br/>2005</b>   | -                            | \$ -                         | 8,875,476                 | \$ 8,876                  | \$ 3,014,376                     | \$ -                            | \$ (25,000)                    | \$ (2,014,185)   | \$ 984,067   |

Edgar Filing: SEAWRIGHT HOLDINGS INC - Form 10KSB

|   |   |      |           |          |              |      |             |                |              |
|---|---|------|-----------|----------|--------------|------|-------------|----------------|--------------|
| 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 to consultants in exchange for services rendered             | - | -    | -         | -        | 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)  |
| <b>Balance at December 31, 2006</b>   | - | \$ - | 8,935,474 | \$ 8,936 | \$ 3,081,760 | \$ - | \$ (25,000) | \$ (3,799,571) | \$ (733,875) |

The accompanying notes are an integral part of these consolidated financial statements.



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

|   | <b>For the period<br/>from<br/>October 14, 1999<br/>(date of<br/>inception)<br/>through</b> |                |                     |
|---|---|----------------|---------------------|
|   | <b>For the years ended December 31,</b>   |                | <b>December 31,</b> |
|   | <b>2006</b>   | <b>2005</b>    | <b>2006</b>         |
| Net loss  | \$ (1,785,386)  | \$ (1,116,048) | \$ (3,799,571)      |
| Income from discontinued operations   | -   | -              | (16,901)            |
|   | (1,785,386)   | (1,116,048)    | (3,816,472)         |
| Adjustments to reconcile to net cash from operating activities:             |   |                |                     |
| Depreciation and amortization   | 10,489  | 6,538          | 17,444              |
| Amortization of debt discount   | 120,819   | 112,083        | 260,677             |
| Amortization of deferred financing costs                                    | 165,662   | 141,788        | 359,860             |
| Interest expense financed through issuance of note payable                  | 40,000  | -              | 40,000              |
| Accretion of interest on tradename liability                                | 3,517   | 1,621          | 5,138               |
| Extinguishment of debt  | -   | (60,000)       | (807,103)           |
| Fair valuation adjustment - termination agreement                           | -   | (68,752)       |                     |
| Financing expense attributed to conversion of stock options to common stock | -   | -              | 1,500               |
| Common stock issued to founders   | -   | -              | 5,020               |
| Common stock issued in exchange for services rendered                       | -   | -              | 45,000              |
| Stock options issued in exchange for services rendered                      | 38,490  | -              | 43,766              |
| Write-off of claimed receivable - discontinued operations                   | -   | -              | 6,000               |
| Change in:  |   |                |                     |
| Marketable securities - trading   | 120,917   | 1,417,495      | (17,993)            |
| Claims receivable   | -   | -              | (6,000)             |
| Capitalized financing costs   | (32,647)  | -              | (32,647)            |
| Deposits  | 60,000  | (59,600)       | (65,300)            |
| Purchase of intangible  | -   | (10,000)       | (10,000)            |
| Bank overdraft  | 7,227   | -              | 7,227               |
| Accrued expenses  | 331,973   | 45,172         | 1,199,521           |
| Net cash provided by (used in) continuing operating activities              | (918,939)   | 410,297        | (2,764,362)         |

Edgar Filing: SEAWRIGHT HOLDINGS INC - Form 10KSB

|  |           |         |             |
|--|-----------|---------|-------------|
| Net cash provided by discontinued operating activities | -         | -       | 16,901      |
| Net cash from operating activities                     | (918,939) | 410,297 | (2,747,461) |

The accompanying notes are an integral part of these consolidated financial statements.

F-10

---

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

|  | For the years ended December<br>31, |             | For the<br>period from<br>October 14,<br>1999<br>(date of<br>inception)<br>through<br>December 31,<br>2006 |
|--|-------------------------------------|-------------|--|
|  | 2006                                | 2005        |  |
| Cash flows from investing activities   |                                     |             |  |
| Capital expenditures   | (337,045)                           | (264,346)   | (915,763)  |
| Net cash from investing activities   | (337,045)                           | (264,346)   | (915,763)  |
| Cash flows from financing activities   |                                     |             |  |
| Proceeds from issuance of common stock and<br>stock subscription - net of costs and fees | 99,000                              | 25,188      | 1,665,165  |
| Nonreciprocal (transfer to) receipt from<br>shareholder                                  | 11,554                              | 89,487      | (42,965)   |
| Proceeds from issuance of notes payable, net of<br>repayments                            | 1,099,159                           | -           | 1,238,159  |
| Proceeds from issuance of convertible notes -<br>net                                     | -                                   | 16,792      | 1,082,586  |
| Proceeds from issuance of warrants attached to<br>convertible notes - net                | -                                   | 3,020       | 169,865  |
| Repayments of notes payable  | -                                   | (340,000)   | (640,000)  |
| Reacquisition of shares  | (81,600)                            | -           | (81,600)   |
| Proceeds from issuance of preferred stock - net  | -                                   | -           | 275,000  |
| Net cash from financing activities   | 128,113                             | (205,513)   | 3,666,210  |
| Net increase (decrease) in cash and cash<br>equivalents                                  | \$ (127,871)                        | \$ (59,562) | \$ 2,986   |
| Cash and cash equivalents - beginning of period  | 130,857                             | 190,419     | -  |
| Cash and cash equivalents - end of period  | \$ 2,986                            | \$ 130,857  | \$ 2,986   |
| Supplemental Disclosures of Cash Flow<br>Information                                     |                                     |             |  |
| Cash paid for interest   | \$ 346,042                          | \$ 191,130  | \$ 586,659   |
| Cash paid for income taxes   | \$ -                                | \$ -        | \$ -   |
| Capitalized financing costs in connection with<br>issuance of note payable               | \$ 50,075                           | \$ -        | \$ 50,075  |

|  |    |         |            |              |
|--|----|---------|------------|--------------|
| Capitalized financing costs in connection with incentive stock liability | \$ | 127,500 |            |              |
| Notes payable issued in connection with capital expenditures             | \$ |         | \$ 500,000 | \$ 1,200,000 |
| Warrants issued in exchange for financing costs                          | \$ | -       | \$ -       | \$ 545,460   |

The accompanying notes are an integral part of these consolidated financial statements.

F-11

---

*Notes to Consolidated Financial Statements*  
*Years Ended December 31, 2006 and 2005*

---

NOTE A-SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows.

BUSINESS AND BASIS OF PRESENTATION

Seawright Holdings, Inc., (Company) was formed on October 14, 1999 under the laws of the state of Delaware. The Company is a development stage enterprise, as defined by *Statement of Financial Accounting Standards No. 7 (SFAS 7)* and is seeking to develop a 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 December 31, 2006, the Company has accumulated losses of \$3,799,571.

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.

REVENUE RECOGNITION

For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition* ("SAB104"), which superseded 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.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

The Company maintains a cash balance in a non-interest bearing account that may, at times, exceed federally insured limits. For the purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity date of three months or less to be cash equivalents.



## PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference less any amount realized from disposition, is reflected in earnings. Minor additions and renewals are expensed in the year incurred. Major additions and renewals are capitalized and depreciated over their estimated useful lives being 5 years for equipment and 4 years for computers.

## ADVERTISING

The Company follows the policy of charging the costs of advertising to expense as incurred. The Company did not incur advertising costs for the past two years.

## IMPAIRMENT OF LONG-LIVED ASSETS

The Company has adopted *Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144)*. The Statement requires that long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted undiscounted cash flows. Should an impairment in value be indicated, the carrying value of intangible assets will be adjusted, based on estimates of future discounted cash flows resulting from the use of and ultimate disposition of the intangible, to be reported at the lower of the carrying amount or the fair value less costs to sell.

## FAIR VALUE OF FINANCIAL INSTRUMENTS

*Statement of Financial Accounting Standards No. 107, Disclosures About Fair Value of Financial Instruments (SFAS 107)* requires disclosure of the fair value of certain financial instruments. The carrying value of cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings, as reflected in the balance sheets, approximate fair value because of the short-term maturity of these instruments.

## 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 consolidated financial statements for the year ended December 31, 2006, reflect the impact, if any, of SFAS No. 123(R).





Prior to the adoption of SFAS No. 123(R), the Company accounted for stock-based awards to employees using the intrinsic value method in accordance with APB No. 25, as allowed under SFAS No. 123, "Accounting for Stock-Based Compensation." Under the intrinsic value method, no stock-based compensation expense for employee stock options had been recognized in the Company's consolidated statements of operations because the exercise price of the Company's stock options granted to employees equaled the fair market value of the underlying stock at the date of grant. In accordance with the modified prospective transition method the Company used in adopting SFAS No. 123(R), the Company's results of operations prior to fiscal 2006 have not been restated to reflect, and do not include, the impact of SFAS No. 123(R).

Stock-based compensation expense recognized during a period is based on the value of the portion of stock-based awards that is ultimately expected to vest during the period.

The following table illustrates the pro forma net income and earnings per share for the year ended December 31, 2005 as if compensation expense for stock options issued to employees had been determined consistent with SFAS No. 123:

|  | For the year<br>ended<br>December 31,<br>2005 |
|--|---|
| Net loss - as reported   | \$ (1,116,048)                                |
| Add: Total stock based employee compensation expense as reported under intrinsic value method (APB No. 25)       | -   |
| Deduct: Total stock based employee compensation expense as reported under fair value based method (SFAS No. 123) | -   |
| Net loss - Pro Forma   | (1,116,048)                                   |
| Net loss attributable to common stockholders - Pro forma   | \$ (1,116,048)                                |
| Basic (and assuming dilution) loss per share - as reported   | \$ (0.13)                                     |
| Basic (and assuming dilution) loss per share - Pro forma   | \$ (0.13)                                     |

Stock-based compensation expense is measured using a multiple point Black-Scholes option pricing model that takes into account highly subjective and complex assumptions. The expected life of options granted is derived from the vesting period of the award, as well as historical exercise behavior, and represents the period of time that options granted are expected to be outstanding. Expected volatilities are based on a blend of historical volatility and implied volatility derived from publicly traded options to purchase the Company's common stock, which the Company believes is more reflective of the market conditions and a better indicator of expected volatility than solely using historical volatility. The risk-free interest rate is the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life of the option. There were no employee options granted during 2006 or 2005, and all employee options granted prior to 2005 had fully vested by January 1, 2005.

Stock-based compensation expense related to 75,000 stock options issued to consultants for services rendered as recognized under SFAS No. 123(R) totaled \$38,490 for the year ended December 31, 2006 (Note I). As of December 31, 2006, all stock options outstanding issued to consultants were fully vested.



## EARNING (LOSS) PER SHARE

Net earning (loss) per share is provided in accordance with *Statement of Financial Accounting Standards No. 128, Earnings per share (SFAS 128)*. Basic loss per share is computed by dividing losses available to common stockholders by the weighted average number of common shares and dilutive common stock equivalents outstanding during the period. Dilutive common stock equivalents consist of shares issuable upon conversion of convertible debentures and the exercise of the Company's stock options and warrants (calculated using the treasury stock method). During the year ended December 31, 2006 and 2005, common stock equivalents are not considered in the calculation of the weighted average number of common shares outstanding because they would be anti-dilutive, thereby decreasing the net loss per common share.

## SEGMENT INFORMATION

The Company adopted *Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS 131)* in the year ended December 31, 1999. SFAS 131 establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS 131 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions regarding the allocation of resources and asset performance. The information disclosed herein materially represents all of the financial information related to the Company's principal operating segment.

## INCOME TAXES

The Company follows *Statement of Financial Accounting Standards No. 109, Accounting for Income taxes (SFAS 109)* for recording the provision for income taxes. Deferred tax assets and liabilities are computed based upon the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rate applicable when the related asset or liability is expected to realized or settled. Deferred income tax expenses or benefits are based on the changes in the asset or liability during each period. If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized. Future changes in such valuation allowance are included in the provision for deferred income taxes in the period of change.

Deferred income taxes may arise from temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods. Deferred taxes are classified as current or non-current, depending on the classification of assets and liabilities to which they relate. Deferred taxes arising from temporary differences that are not related to an asset or liability are classified as current or non current depending on the periods in which the temporary differences are expected to reverse.

## CONCENTRATIONS OF CREDIT RISK

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents and marketable securities. The Company places its cash and temporary cash investments with high credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit. Marketable securities are reviewed periodically by management who has established guidelines for the Company's investment portfolio. Marketable securities maintained by the Company are not FDIC insured.

## LIQUIDITY

The Company is in the development stage and its efforts have been principally devoted to developing the spring water bottling and distribution business. To date, the Company has generated minimal revenues, has incurred expenses and has sustained losses. As shown in the accompanying consolidated financial statements, the Company has incurred accumulated losses of \$3,799,571 for the period from inception through December 31, 2006. The Company's current liabilities exceeded its current assets by \$1,355,680 as of December 31, 2006. Consequently, its operations are subject to all risks inherent in the establishment of a new business enterprise.

## DEBT AND EQUITY SECURITIES

The Company follows the provisions of *Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115)*. The Company classifies debt and equity securities into one of three categories: held-to-maturity, available-for-sale or trading. These security classifications may be modified after acquisition only under certain specified conditions. Securities may be classified as held-to-maturity only if the Company has the positive intent and ability to hold them to maturity. Trading securities are defined as those bought and held principally for the purpose of selling them in the near term. All other securities must be classified as available-for-sale.

Held-to-maturity securities are measured at amortized cost in the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings or in a separate component of capital. They are merely disclosed in the notes to the consolidated financial statements.

Available-for-sale securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings but are reported as a net amount (less expected tax) in a separate component of capital until realized.

Trading securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses for trading securities are included in earnings.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses.

## INTANGIBLES

In accordance with *Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142)*, indefinite-lived intangible assets are not amortized but are reviewed annually for impairment. Separable intangible assets that are not deemed to have an indefinite life are amortized over their useful lives and reviewed for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable.

The Company tests, for impairment, the tradename value reported on the consolidated balance sheet on the last day of the Company's year. The tradename impairment test under SFAS 142 requires a two-step approach, which is performed at the reporting unit level, as defined in SFAS 142. Step one identifies potential impairments by comparing the fair value of the reporting unit to its carrying amount. Step two, which is only performed if there is a potential impairment, compares the carrying amount of the reporting unit's tradename value to its implied value, as defined in SFAS 142. If the carrying amount of the reporting unit's tradename exceeds the implied fair value of the tradename, an impairment loss is recognized for an amount equal to that excess.

Financing costs associated with the Company's convertible promissory notes are deferred and amortized over the term of the loan.



## NEW ACCOUNTING PRONOUNCEMENTS

*Currently Effective*

In December 2004, the Financial Accounting Standards Board issued Statement No. 123 (revised 2004), which is a revision of Statement 123 "Accounting for Stock-Based Compensation." This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement is effective for public entities as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The adoption of this Statement did not have a material effect on the Company's financial condition, results of operations, or cash flows.

In May 2005, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 154, "Accounting Changes and Error Corrections," which changes the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principles and changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. This statement requires retrospective application to prior period financial statements of changes in accounting principle, unless it is impractical to determine either the period-specific or cumulative effects of the change. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005. The adoption of this standard did not have a material effect on the Company's financial condition, results of operations, or cash flows.

In November 2005, the FASB issued FASB Staff Position (FSP) FAS 115-1 and 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. The guidance in this FSP addresses the determination of when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. The FSP also includes accounting considerations subsequent to the recognition of other-than temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP is required to be applied to reporting periods beginning after December 15, 2005. Earlier application is permitted, but the Company did not adopt the recognition provisions of this standard until January 1, 2006. The disclosure provisions were adopted in previous years. The adoption of this Statement did not have a material effect on the Company's financial condition, results of operations or cash flows.

In September 2006, the Securities and Exchange Commission (the "SEC") released Staff Accounting Bulletin No. 108 ("SAB 108"), which provides detail in the quantification and correction of financial statement misstatements. SAB 108 specifies that companies should apply a combination of the "rollover" and "iron curtain" methodologies when making determinations of materiality. The rollover method quantifies a misstatement based on the amount of the error originating in the current year income statement. The iron curtain approach quantifies misstatements based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year, regardless of the year(s) of origination. SAB 108 instructs companies to quantify the misstatement under both methodologies and, if either method results in the determination of a material error, the Company must adjust its financial statements to correct the error. SAB 108 also reminds preparers that a change from an accounting principle that is not generally accepted to a principle that is generally accepted is a correction of an error. The Bulletin is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The adoption of this Bulletin did not have a material effect on the Company's financial condition or results of operations.

*Currently Effective in Future Years*

On February 16, 2006 the FASB issued SFAS 155, “Accounting for Certain Hybrid Instruments,” which amends SFAS 133, “Accounting for Derivative Instruments and Hedging Activities,” and SFAS 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. This statement is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. The Company does not expect its adoption of this new standard to have a material impact on its financial position, results of operations or cash flows.

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement 109”, which provides guidance on the measurement, recognition, and disclosure of tax positions taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, and disclosure. FIN 48 prescribes that a tax position should only be recognized if it is more-likely-than-not that the position will be sustained upon examination by the appropriate taxing authority. A tax position that meets this threshold is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The cumulative effect of applying FIN 48 is to be reported as an adjustment to the beginning balance of retained earnings in the period of adoption. FIN 48 is effective for fiscal years beginning after December 15, 2006. The company is assessing the impact, if any, that the adoption may have on its financial statements.

In March 2006, the FASB issued FASB Statement No. 156, Accounting for Servicing of Financial Assets - an amendment to FASB Statement No. 140. Statement 156 requires that an entity recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a service contract under certain situations. The new standard is effective for fiscal years beginning after September 15, 2006. The Company does not expect its adoption of this new standard to have a material impact on its financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (“GAAP”), and expands disclosures about fair value measurements. The Company will be required to adopt SFAS 157 effective for the fiscal year beginning January 1, 2008. The requirements of SFAS 157 will be applied prospectively except for certain derivative instruments that would be adjusted through the opening balance of retained earnings in the period of adoption. The Company is currently evaluating the impact of the adoption of SFAS 157 on the Company’s consolidated financial statements and the management believes that the adoption of SFAS 157 will not have a significant impact on its consolidated results of operations or financial position.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132R* (‘SFAS 158’). SFAS 158 changes current practice by requiring employers to recognize the overfunded or underfunded positions of defined benefit postretirement plans, including pension plans, on the balance sheet. The funded status is defined as the difference between the projected benefit obligation and the fair value of plan assets. SFAS 158 also requires employers to recognize the change in funded status in other comprehensive income (a component of shareholders’ equity). SFAS 158 does not change the requirements for the measurement and recognition of pension expense in the statement of income. SFAS 158 is effective for fiscal years ending after December 15, 2006. The Company does not anticipate any material impact to its financial condition or results of operations as a result of the adoption of SFAS 158.





In September 2006, the FASB ratified the consensus reached by the EITF on Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements." EITF 06-4 requires the recognition of a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods as defined in SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The EITF reached a consensus that "Company Owned Life Insurance" policies purchased for this purpose do not effectively settle the entity's obligation to the employee in this regard, and thus the entity must record compensation cost and a related liability. Entities should recognize the effects of applying this Issue through either, (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the balance sheet as of the beginning of the year of adoption, or (b) a change in accounting principle through retrospective application to all prior periods. This Issue is effective for fiscal years beginning after December 15, 2007. The Company is assessing the impact, if any, that adoption may have on its financial statements.

In December 2006, the FASB issued FSP EITF 00-19-2, Accounting for Registration Payment Arrangements ("FSP 00-19-2") which addresses accounting for registration payment arrangements. FSP 00-19-2 specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB Statement No. 5, Accounting for Contingencies. FSP 00-19-2 further clarifies that a financial instrument subject to a registration payment arrangement should be accounted for in accordance with other applicable generally accepted accounting principles without regard to the contingent obligation to transfer consideration pursuant to the registration payment arrangement. For registration payment arrangements and financial instruments subject to those arrangements that were entered into prior to the issuance of EITF 00-19-2, this guidance is effective for financial statements issued for fiscal years beginning after December 15, 2006 and interim periods within those fiscal years. The adoption of FSP 00-19-2 is not expected to have a material impact on the Company's financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS 159 permits entities to choose to measure many financial instruments, and certain other items, at fair value. SFAS 159 applies to reporting periods beginning after November 15, 2007. The adoption of SFAS 159 is not expected to have a material impact on the Company's financial condition or results of operations.

## RECLASSIFICATIONS

Certain reclassifications have been made in prior year's financial statements to conform to classifications used in the current year.

## NOTE B - MARKETABLE SECURITIES

During the year ended December 31, 2006 and 2005, the Company classified all of its marketable securities as trading as the securities were bought and held principally for the purpose of selling them in the near term. The Company actively and frequently trades 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 December 31, 2006 and 2005, the Company's trading securities were carried at fair values of \$17,993 and \$138,910, respectively. The Company included a realized net loss of \$1,570, a net loss of \$54,592, and a net gain of \$37,356 on trading securities during the years ended December 31, 2006 and 2005, and for the period from October 14, 1999 (date of inception) through December 31, 2006, respectively.

## NOTE C - PROPERTY AND EQUIPMENT

In October, 2003, the Company acquired approximately 140 acres of land and related improvements in Augusta County, Virginia, in exchange for \$1,000,000, comprised of \$300,000 of cash and a \$700,000 promissory note payable. In June 2005, the Company purchased a parcel of land located approximately 10 miles south of the Augusta County, Virginia location. The purchased parcel is 33.52 acres which the Company acquired for \$725,000, comprised of \$225,000 of cash and a \$500,000 promissory note payable. The Company anticipates entering the sale of bulk spring water and retail bottling business utilizing the properties' water resources. The Company 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. The Company paid \$90,000 of the remaining purchase price at settlement and has financed the remaining \$140,000.

F-19

---

Edgar Filing: SEAWRIGHT HOLDINGS INC - Form 10KSB

Major classes of property and equipment at December 31, 2006 and 2005 consisted of the following:

|                                 | 2006         | 2005         |
|---------------------------------|--------------|--------------|
| Land                            | \$ 1,965,000 | \$ 1,725,000 |
| Equipment                       | 32,167       | 29,438       |
| Building improvements           | 118,595      | 24,280       |
|                                 | 2,115,762    | 1,778,718    |
| Less - accumulated depreciation | (5,725)      | (3,049)      |
|                                 | \$ 2,110,037 | \$ 1,775,669 |

Depreciation expense was \$2,676 and \$2,632 for the years ended December 31, 2006 and 2005, respectively. The building improvements have not been placed in service as of December 31, 2006. Accordingly, depreciation has not been recorded on this asset group.

NOTE D - INTANGIBLES

INTANGIBLE ASSET

In June 2005, the Company purchased intellectual property including trademarks, service marks, trade dress, trade names, brand names, designs and logos as well as formulas for flavored sparkling waters and teas from a competitor. Under the terms of the agreement, the Company paid a purchase price of \$10,000 with royalties to be paid for the first 4,000,000 cases of bottled water or tea sold under the trademarks. As of the fifth anniversary of the effective date of the purchase, if the Company has not sold 4,000,000 cases of product under the trademark, the seller shall be entitled to a payment of \$50,000 less any royalties previously paid under the agreement. The royalty payable under this intangible has been recorded at its present value of \$34,200 at December 31, 2006 and is included in other long-term liabilities. The intangibles have been recorded at the carrying amount of \$27,343 net of the discount amortized and charged to interest expense in relation to these intangibles through December 31, 2006 of \$11,719. The intangible assets acquired will be amortized over a period of 5 years.

The Company has adopted SFAS No. 142, Goodwill and Other Intangible Assets, whereby the Company periodically tests its intangible assets for impairment. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets are tested for impairment, and write-downs will be included in results from operations.

Estimated amortization expense is as follows for years ending December 31:

|            |           |
|------------|-----------|
| 2007       | \$ 7,812  |
| 2008       | 7,812     |
| 2009       | 7,812     |
| 2010       | 3,907     |
| 2011       | -         |
| Thereafter | -         |
| Total      | \$ 27,343 |

## DEFERRED FINANCING COSTS

Deferred financing costs associated with the Company's convertible and various notes payable are deferred and amortized over the life of the loan. Deferred financing costs consisted of the following at December 31:

|                                      | 2006       | 2005       |
|--------------------------------------|------------|------------|
| Deferred financing costs             | \$ 911,667 | \$ 701,445 |
| Less - accumulated amortization      | (359,860)  | (194,198)  |
|                                      | 551,807    | 507,247    |
| Less - current portion               | (293,941)  | (140,289)  |
| Deferred financing costs - long-term | \$ 257,866 | \$ 366,958 |

Amortization expense on deferred financing costs was \$165,662 and \$141,788 as of December 31, 2006 and 2005, respectively.

## NOTE E - NOTES PAYABLE

Notes payable at December 31 consisted of the following:

|  | 2006        | 2005       |
|--|-------------|------------|
| Note payable, 8% interest, principal and outstanding interest due and payable in May 2006, collateralized by land.                                     | \$ -        | \$ 500,000 |
| 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.  | 515,000     | -          |
| 35% note payable, monthly principal and interest payments of \$65,000, maturing in December 2007, collateralized by signed put notices.                | 658,736     | -          |
|  | 1,697,972   | 500,000    |
| Less - current portion   | (1,179,950) | (500,000)  |
| Notes payable - long-term  | \$ 518,022  | \$ -       |

Aggregate maturities of long-term debt as of December 31, 2006 are as follows:

## Fiscal Year

|                |              |
|----------------|--------------|
| 2007           | \$ 1,179,950 |
| 2008           | 55,098       |
| 2009           | 462,924      |
| 2010           | -            |
| 2011 and after | -            |

\$ 1,697,972

During June 2006, the Company obtained a \$525,000 loan, which is secured by the Mt. Sidney property. The Company's President absolutely and unconditionally guaranteed the loan on behalf of the Company. By the terms of this second loan, the Company promised to pay to the lender the principal amount of \$525,000 together with interest at a rate of 9.375% per annum on the unpaid principal balance of the loan. The loan requires 35 regular installments of \$4,592 each and one balloon payment equal to the remaining principal balance of the loan, accrued interest, and other applicable fees, costs and charges, due in June 2009. This loan was obtained to pay off a promissory note issued in May 2005 in the amount of \$500,000 and a portion of the accrued interest in the amount of \$25,000 in connection with the promissory note. The remaining accrued interest in connection with this promissory note and related fees and penalties were also paid off in cash during the year ended December 31, 2006.

F-21

---

During 2006, the Company obtained two interest-only mortgage loans totaling \$515,000 in regard to its Mt. Sidney property. The loans bear interest at a fixed rate of 15.00% per annum, require monthly installments of interest throughout their terms with a balloon payment, equal to the principal balance of the loans, due in June 2007.

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, the Company agreed to issue 250,000 shares of its common stock to the holder of the promissory note. The fair value of the shares, \$127,500, has been accounted for as deferred financing costs to be amortized over the life of the note. An incentive stock liability was recorded to account for the Company's obligation at year end 2006. 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 detailed in Note N) 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 as well as the personal property of the President and Chief Executive Officer of the Company. The Company is required to abide by certain covenants as detailed in the promissory note. As the promissory note is neither a mandatorily redeemable financial instrument or a forward contract, the obligation was recorded as a liability and measured in accordance with FASB 150 at its fair value.

#### NOTE F - 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 an 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 accrue interest at 11% per annum which is payable and due in September 2009. The note holders have 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 had received 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.

A summary of convertible promissory notes payable at December 31 are as follows:

|  | 2006         | 2005         |
|--|--------------|--------------|
| Convertible notes payable (Convertible Notes), 11% per annum, maturity of September 2009, 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 | \$ 1,498,500 |
| Debt discount - note, net of accumulated amortization of and \$125,970 and \$69,929 at December 31, 2006 and 2005, respectively.   | (154,238)    | (210,278)    |
| Debt discount - beneficial conversion feature - note, net of accumulated amortization of \$125,970 and \$69,929 at December 31, 2006 and 2005, respectively.   | (154,238)    | (210,278)    |
|  | 1,190,024    | 1,077,944    |

Edgar Filing: SEAWRIGHT HOLDINGS INC - Form 10KSB

|                        |              |              |
|------------------------|--------------|--------------|
| Less - current portion | -            | -            |
| Total                  | \$ 1,190,024 | \$ 1,077,944 |

F-22

---

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 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' debt discount and the debt discount attributed to the beneficial conversion feature and recorded non-cash interest expense of \$112,083 for the years ended December 31, 2006 and 2005.

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 \$31,197 for the years ended December 31, 2006 and 2005, in relation to the deferred financing costs.

#### NOTE G - COMMON 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 December 31, 2006 and 2005, the Company does not have any shares of Series A Convertible 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 of December 31, 2006 and 2005, there were 8,935,474 and 8,875,476 shares of common stock issued and outstanding, respectively.

In March 2000, the Company issued \$ 124,000 of notes payable convertible into common stock at a price equal to \$.50 per share. As of December 31, 2000, the holders of the notes payable elected to convert \$52,000 of the notes, net of costs, in exchange for 104,000 shares of the Company's common stock.

In January 2001, the holders of the \$ 72,000 of convertible Notes Payable, exercised their rights to convert the unpaid principal to 144,000 shares of the Company's common stock at the conversion price of \$.50 per share.

In January 2001, \$15,000 of convertible notes payable were issued and converted to 30,000 shares of the Company's common stock.





In January 2001, the Company issued 5,000,000 shares of its common stock to the Company's Founders in exchange for services provided to the Company from its inception. The Company valued the shares issued at \$.001 per share, which approximated the fair value of the services rendered. The compensation costs of \$5,020 were charged to income during the year ended December 31, 2001.

In January 2001, the Company issued 90,000 shares of its common stock to consultants in exchange for services provided to the Company. The Company valued the shares issued at \$ .50 per share, which approximated the fair value of the shares issued during the period the services were rendered. The compensation costs of \$ 45,000 were charged to income during the year ended December 31, 2001.

During the year ended December 31, 2003, the Company authorized the issuance of 60,000 shares of newly designated Series A Convertible Preferred stock, with a par value of \$0.001 per share. As of December 31, 2003 the Company issued 55,000 shares of the Series A Convertible Preferred stock in exchange for \$275,000, net of costs and fees.

The Series A Convertible Preferred Stock are convertible into the Company's common stock at the option of the holder at a ratio of ten (10) shares of common stock for each share of preferred stock if converted before the first anniversary of the original issue date and at a ratio of five (5) shares of common stock for each share of preferred stock if conversion is made after the first anniversary but before the second anniversary.

The preferred shares may be redeemed for cash at the option of the Company, any time after the first anniversary of the original issue date but before the second anniversary. The Preferred Shareholders shall be entitled to cumulative dividends when and if declared by the Company's Board of Directors at a per share rate of 10% per annum of the original issue price. At the option of the preferred shareholders, accrued and unpaid cumulative dividends may be applied to the purchase of additional shares of the Company's common stock upon conversion of the preferred shares to common shares. The Preferred Shares rank senior to the common stock. The Preferred Shares have a liquidation preference of payment of the original purchase price of the Preferred Shares plus all declared but unpaid dividends on such shares.

The fair value of the Company's common stock at the time the conversion option was granted was below the value of the Preferred Stock if converted. Accordingly, the Company recognized no beneficial conversion feature embedded in the Series A Preferred Stock.

In April 2004, the Company issued 160,000 shares of its common stock to a shareholder in exchange for previously issued stock options exercised at \$.5625 per share, for a total of \$90,000. In exchange for the shares, the holder of the options paid \$63,500 in cash, and tendered 5,000 shares of the Company's previously issued Series A preferred stock valued at \$5 per share. The remaining balance of \$1,500 was accounted for as financing expenses and was charged to operations during the year ended December 31, 2004. The preferred shares tendered were subsequently cancelled by the Company.

In April 2004, the Company issued an aggregate of 300,000 shares of its restricted common stock to an investor in exchange for \$90,000 of proceeds, net of costs and fees.

Pursuant to the Private Placement Memorandum, the Company was obligated to issue an aggregate of 2,460,000 shares of its common stock, valued at \$1,387,477 net of placement costs attributable to the equity portion of the private placement, to the investors in connection with 984 units sold in the private placement as of December 31, 2004. The Company has issued an aggregate of 2,404,978 shares to the investors at December 31, 2004, and the remaining aggregate of 54,998 shares were issued to the investors in January 2005 (fractional shares of 24 shares of common stock will not be issued). The Company has accounted for the shares not issued at December 31, 2004 as common stock subscription payable in the amount of \$25,581.



In December 2004, the Company's Series A Preferred Stock holders elected to convert an aggregate of 50,000 shares of Preferred Stock into 500,000 shares of the Company's common stock, at a ratio of ten (10) shares of common stock for each share of preferred stock. In connection with the conversion, the Company also issued an aggregate of 50,000 shares of its common stock in exchange for \$25,000 of dividends in arrears. As of December 31, 2004, all Series A Convertible Preferred Stock has been converted to the Company's common stock, and there was no Preferred Stock issued and outstanding at December 31, 2004.

In January 2005, pursuant to the Private Placement Memorandum, the Company was obligated to issue an aggregate of 37,500 shares of its common stock, valued at \$25,188 to the investors in connection with 15 units sold in the private placement as of December 31, 2005.

During the year ended 2006, the Company issued an aggregate of 219,998 shares of common stock in exchange for \$99,000 of proceeds, net of costs and fees.

In December 2006, the Company repurchased 160,000 shares of common stock from a former employee for \$1.25 per share. In accordance with FASB Technical Bulletin 85-6, the amount paid per share was considered to be significantly in excess of the current market price of \$0.51 per share thereby creating a presumption that the purchase price is not attributable to the stock value alone. As such, the excess amount of \$0.74 per share is deemed to be attributable to a severance payment and \$118,400 was charged to compensation expense in 2006. The shares were retired by the Company immediately after repurchase.

#### NOTE H - TERMINATION AGREEMENT

In April 2004, the Company issued 160,000 shares of its common stock to a shareholder in exchange for previously issued stock options exercised at \$.5625 per share, for a total of \$90,000. In exchange for the shares, the holder of the options paid \$63,500 in cash, and tendered 5,000 shares of the Company's previously issued Series A preferred stock valued at \$5 per share. The remaining balance of \$1,500 was accounted for as financing expense and was charged to operations during the year ended December 31, 2004.

In October 2004, the Company entered into an agreement (termination agreement) granting the shareholder an option to put the 160,000 shares of common stock to the Company one year from the date of the agreement for \$1.25 per share. The shareholder agreed to cancel 677,500 stock options exercisable at \$.5625 per share.

The Company accounted for the puts in accordance with *Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150)*, and classified the fair value attributable to the put option as an accrued liability, as the puts issued under the termination agreement embody an obligation to repurchase the Company's equity shares which would require the Company to settle the agreement by transferring its assets. The put option was initially measured at its fair value of \$170,256 as of the date of the agreement.

Assumptions used to estimate the fair value of the put option are as follows:

|                         |        |
|-------------------------|--------|
| Risk-free interest rate | 3.38%  |
| Dividend yield          | -      |
| Volatility              | 296%   |
| Time to expiration      | 1 year |

Equity was reduced by the original value of the shares, being \$90,000, with the remaining value of \$80,256 being charged to other expense.

F-25

---

In October 2005, the termination agreement and puts expired without being exercised. At the time of expiration, the fair value of the accrued liability attributable to the puts was \$87,984. Accordingly, equity has been increased by the original value of the shares, being \$90,000, with the remaining value of \$2,016 being charged to other expense.

#### NOTE I - 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's Chief Executive Officer. These options were granted in lieu of cash compensation for services performed or other consideration.

| Exercise Price | Options Outstanding |   | Options Exercisable             |                     |                        |
|----------------|---------------------|---|---------------------------------|---------------------|------------------------|
|                | Number Outstanding  | Weighted Average Contractual Life (Years) | Weighted Average Exercise Price | Numbers Exercisable | Average Exercise Price |
| \$ 0.50 - 2.00 | 1,575,000           | 3.84                                      | \$ 1.33                         | 1,575,000           | \$ 1.33                |

Transactions involving options issued to employees and consultants during 2006 and 2005 are summarized as follows:

|                                  | Number of Shares | Weighted Average Price Per Share |
|----------------------------------|------------------|----------------------------------|
| Outstanding at December 31, 2004 | 1,500,000        | 1.35                             |
| Granted                          | -                | -                                |
| Exercised                        | -                | -                                |
| Cancelled or expired             | -                | -                                |
| Outstanding at December 31, 2005 | 1,500,000        | \$ 1.35                          |
| Granted                          | 75,000           | 0.85                             |
| Exercised                        | -                | -                                |
| Cancelled or expired             | -                | -                                |
| Outstanding at December 31, 2006 | 1,575,000        | \$ 1.33                          |

The estimated value of the compensatory options granted to a consultant in exchange for services rendered was determined using the Black-Scholes pricing model and the following assumptions: contractual term of 4 years, a risk free interest rate of 4.875%, a dividend yield of 0% and volatility of 111%. The Company charged \$38,490 to

operations in connection with these options during the year ended December 31, 2006.

F-26

---

WARRANTS

In connection with the Company's Private Placement (Note F) 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 Price | Warrants Outstanding |   | Warrants Exercisable            |                     |                        |
|----------------|----------------------|---|---------------------------------|---------------------|------------------------|
|                | Number Outstanding   | Weighted Average Contractual Life (Years) | Weighted Average Exercise Price | Numbers Exercisable | Average Exercise Price |
| \$ 0.85        | 594,999              | 2.69                                      | \$ 0.85                         | 594,999             | \$ 0.85                |

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

|                                  | Number of common shares issuable upon exercise of warrants | Weighted Average Price Per Share |
|----------------------------------|--|----------------------------------|
| Outstanding at December 31, 2004 | 889,200  | 0.85                             |
| Granted                          | 4,500  | 0.85                             |
| Exercised                        | -  | -                                |
| Cancelled or expired             | -  | -                                |
| Outstanding at December 31, 2005 | 893,700  | \$ 0.85                          |
| Granted                          |  |                                  |
| Exercised                        | -  | -                                |
| Cancelled or expired             | -  | -                                |
| Outstanding at December 31, 2006 | 893,700  | \$ 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 following assumptions: contractual term of 5 years, a risk free interest rate of 3.38%, a dividend yield of 0% and volatility of 291%. The Company capitalized financing costs of \$545,460 and the financing costs were amortized over the contractual terms (five years) of the convertible debenture. During the year ended December 31, 2006 and 2005, the Company amortized financing costs and charged \$109,092 and \$110,591, respectively, to operations.

#### NOTE J - RELATED PARTY TRANSACTIONS

The Company's President had 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 years ended December 31, 2004. Additionally, the total payment the Company remitted exceeded the total balance due to the Company's President in the amount of \$42,951, \$50,500 and \$144,006 during the years ended December 31, 2006, 2005 and 2004, respectively. The Company has accounted for the excess payments to the Company's President as a nonreciprocal transfer to a shareholder for 2006, 2005 and 2004 and, accordingly, has reflected the overpayment as a direct reduction of additional paid-in capital.

During 2005, the Company's President contributed capital of \$140,000 to the Company in direct response to the excess payment. The Company has accounted for the net contribution of \$89,500 as an addition to paid-in capital.

During 2006, the Company's President contributed capital of \$54,505 to the Company in direct response to the excess payment. The Company has accounted for the contribution as an addition to paid-in capital.

The Company's director, Ronald L. Attkisson, is also the principal stockholder of Jones, Byrd and Attkisson, which, from August 2004 until February 2005, acted as placement agent for the Company's private placement. In connection with its role as placement agent, Jones, Byrd and Attkisson received a fee of \$299,700 and was issued 594,000 warrants exercisable for 594,000 shares of our common stock at \$0.85 per share (Note F and Note I). Jones, Byrd and Attkisson is also acting as placement agent under the investment agreement with regard to the equity line of credit. Under our placement agent agreement for the equity line of credit (Note N), we agreed to pay Jones, Byrd and Attkisson 1% of the gross proceeds from each put exercised under the investment agreement. Subsequent to the date of financial statements, Ronald Attkisson resigned as a director of the Company.

#### NOTE K - EARNINGS PER SHARE

|  | Income<br>(Numerator) | 2006<br>Shares<br>(Denominator) | Per-share<br>Amount |
|--|-----------------------|---------------------------------|---------------------|
| Loss available to common shareholders  | \$ (1,785,386)        |                                 |                     |
| Basic and fully diluted loss per share | \$ (1,785,386)        | 9,005,009                       | \$ (0.20)           |
|  |                       | 2005                            |                     |
| Loss available to common shareholders  | \$ (1,116,048)        |                                 |                     |
| Basic and fully diluted loss per share | \$ (1,116,048)        | 8,874,462                       | \$ (0.13)           |

Options to purchase 1,575,000 shares of common stock at \$1.33 per share outstanding during 2006 and as well as options to purchase 1,500,000 shares of common stock at \$1.35 per share outstanding during 2005 were not included in the computation of diluted earnings per share due to their anti-dilutive effect on earnings per share. The options to purchase 1,575,000 shares of common stock were still outstanding at the end of year 2006.

Warrants to purchase 893,700 shares of common stock at \$0.85 per share were outstanding at December 31, 2006 and 2005, and were not included in the computation of diluted earnings per share due to their anti-dilutive effect on earnings per share.

Convertible notes with the option to purchase 1,762,942 shares of common stock at \$0.85 per share were outstanding at December 31, 2006 and 2005, and were not included in the computation of diluted earnings per share due to their anti-dilutive effect on earnings per share.

#### NOTE L - INCOME TAXES

The Company has adopted SFAS 109, which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Permanent differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant.

For income tax reporting purposes, the Company's aggregate unused net operating losses approximate \$3,280,000, and expire through 2026, subject to limitations of Section 382 of the Internal Revenue Code, as amended. The deferred tax assets related to the net operating loss carryforwards are approximately \$1,100,000 and \$673,500 for the years ended December 31, 2006 and 2005, respectively.

The Company has provided a valuation reserve against the full amount of the net operating loss benefit for 2006 and 2005 since, in the opinion of management based upon the earning history of the Company, it is unlikely the benefits will be realized.

#### NOTE M - COMMITMENTS AND CONTINGENCIES

##### LEASE COMMITMENTS

The Company leases office space for its corporate offices in Alexandria, Virginia on a month to month basis. Rental expense for the years ended December 31, 2006 and 2005 was \$2,253 and \$2,308, respectively, and was charged to operations in the period incurred.

##### CONSULTING AGREEMENTS

The Company has consulting agreements with outside contractors to provide web development, business development, and investment banking services. The agreements are generally for a term of 12 months from inception and renewable automatically from year to year unless either the Company or Consultant terminates such engagement with written notice. Compensation under each agreement varies in accordance with the terms of each engagement.

## LITIGATION

As of December 31, 2006, the Company is not a party to any legal proceedings, nor are there any judgments against the Company. However, the Company may be subject to legal proceedings and claims, which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters should not have a material adverse effect on its financial position, results of operations or liquidity.

## NOTE N - LINE OF CREDIT

On September 12, 2005, the Company entered into an investment agreement (Agreement) with Dutchess Private Equities Fund, LP (Dutchess) to provide the Company with an Equity Line of Credit. Pursuant to the Agreement, Dutchess has agreed to provide the Company with up to \$5,000,000 of funding during the 36-month period following the date a registration statement of the Company's common stock is declared effective by the Securities and Exchange Commission. During this 36 month period, the Company may request a draw down under the Equity Line of Credit by which the Company would sell shares of its common stock to Dutchess, which is obligated to purchase the shares under the Agreement. The Company may, at its election, require Dutchess to purchase an amount equal to no more than either (a) 200% of the average daily volume of the Company's 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 the Company 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 the Company's common stock during the pricing period. The Company is under no obligation to draw down under the Equity Line of Credit. In November 2006, a registration statement pertaining to the Company's common stock was declared effective by the Securities and Exchange Commission.

## NOTE O - 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 \$3,799,571. 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 continue to 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.

