

SEAWRIGHT HOLDINGS INC  
Form 10-Q  
July 26, 2011

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

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FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 333-56848

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

Delaware  
(State or other jurisdiction of  
Incorporation or organization)

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

600 Cameron Street, Alexandria, VA 22314  
(Address of principal executive offices)

Registrant's telephone number, including area code: (703) 340-1629

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

| Class                           | Shares Outstanding at June 30, 2011 |
|---------------------------------|-------------------------------------|
| Common Stock, \$0.001 Par Value | 14,348,399                          |

## SEAWRIGHT HOLDINGS, INC.

## INDEX

| PART I   | Financial Information  | Page<br>Number |
|----------|--|----------------|
| Item 1.  | Financial Statements (unaudited)   |                |
|          | Condensed Consolidated Balance Sheets – September 30, 2008<br>(Unaudited) and December 31, 2007  | 3              |
|          | Unaudited Condensed Consolidated Statements of Operations –<br>Three and Nine Months Ended September 30, 2008 and<br>September 30, 2007 and for the period from October 14, 1999<br>(date of inception) through September 30, 2008 | 4              |
|          | Unaudited Condensed Consolidated Statements of Cash Flows –<br>Nine Months Ended September 30, 2008 and September 30,<br>2007 and for the period from October 14, 1999 (date of<br>inception) through September 30, 2008           | 5              |
|          | Notes to Unaudited Condensed Consolidated Financial<br>Statements  | 6              |
| Item 2.  | Management’s Discussion and Analysis of Financial Condition<br>and Results of Operations   | 20             |
| Item 3.  | Quantitative and Qualitative Disclosures about Market Risk   | 22             |
| Item 4.  | Controls and Procedures  | 23             |
| PART II  | Other Information  |                |
| Item 1   | Legal Proceedings  | 23             |
| Item 1A. | Risk Factors   | 23             |
| Item 2.  | Unregistered Sales of Equity Securities and Use of Proceeds  | 23             |
| Item 3.  | Defaults Upon Senior Securities  | 23             |
| Item 4.  | Removed and Reserved   | 23             |
| Item 5   | Other Information  | 23             |
| Item 6.  | Exhibits   | 23             |

SIGNATURES

24

EX-31.1

EX-31.2

EX-32.1

EX-32.2

2

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PART I.  
FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

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

|   | September 30,<br>2008<br>(unaudited) | December 31,<br>2007 |
|---|--------------------------------------|----------------------|
| <b>ASSETS</b>   |                                      |                      |
| Current assets:   |                                      |                      |
| Cash and cash equivalents   | \$580                                | \$445                |
| Deferred financing costs, net - current portion   | 3,226                                | 40,205               |
| Total current assets  | 3,806                                | 40,650               |
| Property and equipment, net   | 1,290,275                            | 2,243,405            |
| Other assets:   |                                      |                      |
| Other assets  | 125,395                              | 25,395               |
| Total assets  | \$1,419,476                          | \$2,309,450          |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>  |                                      |                      |
| Current liabilities:  |                                      |                      |
| Bank overdraft  | \$4,399                              | \$15,808             |
| Line of credit  | 142,500                              | -                    |
| Accounts payable and accrued expenses   | 261,900                              | 202,011              |
| Due to related party  | -                                    | 54,288               |
| Convertible notes payable, net of debt discount   | 37,083                               | -                    |
| Notes payable, current portion  | 1,137,025                            | 1,590,314            |
| Total current liabilities   | 1,582,907                            | 1,862,421            |
| Long-term liabilities:  |                                      |                      |
| Notes payable, long term portion  | -                                    | 510,604              |
| Convertible notes payable, net of debt discount   | -                                    | 34,896               |
| Other long term liabilities   | 41,352                               | 38,120               |
| Total liabilities   | 1,624,259                            | 2,446,041            |
| <b>STOCKHOLDERS' DEFICIT</b>  |                                      |                      |
| Preferred stock, par value \$0.001 per share; 100,000 shares authorized   | -                                    | -                    |
| Series A convertible preferred stock, par value \$0.001 per share; 60,000 shares authorized, none issued and outstanding as of September 30, 2008 and December 31, 2007 | -                                    | -                    |
| Common stock, par value \$0.001 per share; 19,900,000 shares authorized; 13,598,399 shares issued and outstanding as of September 30, 2008 and December 31, 2007        | 13,598                               | 13,598               |
| Common shares to be issued  | 36,896                               | 11,396               |

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|  |              |              |
|--|--------------|--------------|
| Additional paid in capital                   | 7,051,970    | 7,615,945    |
| Preferred stock dividend                     | (25,000 )    | (25,000 )    |
| Accumulated deficit during development stage | (7,282,247 ) | (7,752,530 ) |
| Total stockholders' deficit                  | (204,783 )   | (136,591 )   |
| Total liabilities and stockholders' deficit  | \$1,419,476  | \$2,309,450  |

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

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

|  | Three months ended<br>September 30, |            | Nine months ended September<br>30, |              | For the period<br>from<br>October 14,<br>1999<br>(date of<br>inception)<br><br>through<br>September 30,<br>2008 |
|--|-------------------------------------|------------|------------------------------------|--------------|---|
|  | 2008                                | 2007       | 2008                               | 2007         |   |
| Revenue, net   | \$704                               | \$4,183    | \$4,403                            | \$6,267      | \$17,418  |
| Cost and expenses:   |                                     |            |                                    |              |   |
| Selling, general and administrative  | 265,011                             | 165,026    | 562,449                            | 1,551,308    | 5,260,064   |
| Impairment of trade name   | -                                   | -          | -                                  | -            | 19,529  |
| (Gain) loss on sale of trading securities  | -                                   | 6          | -                                  | 255          | (37,356 )   |
| Depreciation and amortization  | 3,729                               | 3,969      | 11,666                             | 5,375        | 46,267  |
|  | 268,740                             | 169,001    | 574,115                            | 1,556,938    | 5,288,504   |
| Operating loss   | (268,036 )                          | (164,818 ) | (569,712 )                         | (1,550,671 ) | (5,271,086 )  |
| Other income (expense):  |                                     |            |                                    |              |   |
| Other income   | -                                   | -          | -                                  | -            | 61,969  |
| Gain on sale of property   | 1,448,056                           | -          | 1,448,056                          | -            | 1,448,056   |
| (Loss) gain on extinguishment of debt  | -                                   | -          | -                                  | (273,365 )   | 807,103   |
| Interest expense, net  | (157,038 )                          | (94,841 )  | (408,061 )                         | (536,056 )   | (4,345,190 )  |
| Total other income (expense)   | 1,291,018                           | (94,841 )  | 1,039,995                          | (809,421 )   | (2,028,062 )  |
| Income (loss) from continuing operations before income taxes and discontinued operations | 1,022,982                           | (259,659 ) | 470,283                            | (2,360,092 ) | (7,299,148 )  |
| Provision for income taxes   | -                                   | -          | -                                  | -            | -   |
| Income (loss) from continuing operations before discontinued operations                  | 1,022,982                           | (259,659 ) | 470,283                            | (2,360,092 ) | (7,299,148 )  |
|  | -                                   | -          | -                                  | -            | 16,901  |

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|   |              |              |            |                |                |
|---|--------------|--------------|------------|----------------|----------------|
| Income from discontinued operations                                 |              |              |            |                |                |
| Net Income (loss)   | 1,022,982    | (259,659 )   | 470,283    | (2,360,092 )   | (7,282,247 )   |
| Preferred stock dividend  | -            | -            | -          | -              | (25,000 )      |
| Net Income (loss) attributable to common shareholders               |              |              |            |                |                |
|   | \$ 1,022,982 | \$(259,659 ) | \$470,283  | \$(2,360,092 ) | \$(7,307,247 ) |
| Income (loss) per common share, basic                               |              |              |            |                |                |
|   | \$0.08       | \$(0.02 )    | \$0.03     | \$(0.20 )      |                |
| Income (loss) per common share, fully diluted                       |              |              |            |                |                |
|   | \$0.08       | \$(0.02 )    | \$0.03     | \$(0.20 )      |                |
| Weighted average number of common shares outstanding, basic         |              |              |            |                |                |
|   | 13,598,399   | 13,413,048   | 13,598,399 | 11,993,105     |                |
| Weighted average number of common shares outstanding, fully diluted |              |              |            |                |                |
|   | 13,645,458   | 13,413,048   | 13,645,458 | 11,993,105     |                |

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



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

|  | Nine months ended September<br>30, |                 | For the period<br>From<br>October 14,<br>1999<br>(date of<br>inception)<br><br>Through<br>September 30,<br>2008 |
|--|------------------------------------|-----------------|---|
|  | 2008                               | 2007            |   |
| NET CASH USED IN OPERATING ACTIVITIES                                  | \$(705,216 )                       | \$ (1,554,406 ) | \$(5,091,941 )  |
| NET CASH PROVIDED BY (USED IN) INVESTING<br>ACTIVITIES                 | 2,289,520                          | (85,110 )       | 1,288,647   |
| NET CASH (USED IN) PROVIDED BY FINANCING<br>ACTIVITIES                 | (1,584,169 )                       | 1,637,005       | 3,803,874   |
| <br>NET INCREASE (DECREASE) IN CASH AND CASH<br>EQUIVALENTS            | <br>135                            | <br>(2,511 )    | <br>580   |
| <br>Cash and cash equivalents, beginning of period                     | <br>445                            | <br>2,986       | <br>-   |
| <br>Cash and cash equivalents, end of period                           | <br>\$580                          | <br>\$ 475      | <br>\$580   |
| <br>Supplemental Disclosures of Cash Flow Information:                 |                                    |                 |   |
| Cash paid for interest   | \$201,799                          | \$ 180,994      | \$986,148   |
| Cash paid for income taxes   | \$-                                | \$ -            | \$-   |
| <br>Non cash investing and financing activities:                       |                                    |                 |   |
| Common stock issued in exchange for notes payable                      | \$-                                | \$ 701,552      | \$701,552   |
| Common stock to be issued in exchange for convertible notes<br>payable | \$-                                | \$ 11,396       | \$11,396  |
| Common stock issued in exchange for convertible notes payable          | \$-                                | \$ 1,447,104    | \$1,447,104   |
| Common stock issued in exchange for incentive stock liability          | \$-                                | \$ 127,500      | \$127,500   |
| Transfer of deposit to property and equipment                          | \$-                                | \$ 57,600       | \$57,600  |
| Notes payable issued in connection with capital expenditures           | \$-                                | \$ -            | \$1,200,000   |
| Warrants issued in exchange for financing costs                        | \$-                                | \$ -            | \$545,460   |

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



SEAWRIGHT HOLDINGS, INC.  
(a development stage company)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(UNAUDITED)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

General

The accompanying unaudited condensed financial statements have been prepared in accordance with Regulation S-X of the Securities and Exchange Act, as amended, and the instructions to Form 10Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Certain information and notes disclosures normally included in annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Accordingly, the results from operations for the nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. The unaudited condensed financial statements should be read in conjunction with the December 31, 2007 financial statements and footnotes thereto included in the Company's SEC Form 10 K.

The condensed consolidated financial statements as of December 31, 2007 have been derived from the audited consolidated financial statements at that date but do not include all disclosures required by the accounting principles generally accepted in the United States of America.

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 Accounting Standards Codification subtopic 915-10, Development Stage Entities ("ASC 915-10") 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 September 30, 2008, the Company has accumulated losses of \$7,248,779.

In March 2008, the President of the Company formed Knox County Minerals, LLC ("Knox Minerals") pursuant to the Delaware Limited Liability Company Act and transferred his interest in Knox County Minerals, LLC to Seawright Holdings, Inc., and as such the Company became the sole owner of Knox County Minerals, LLC.

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

Reclassification

Certain amounts in the prior year's consolidated financial statements and the related notes have been reclassified to conform to the current period presentation. These reclassifications have no effect on previously reported results of operations or loss per share.

SEAWRIGHT HOLDINGS, INC.  
(a development stage company)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(UNAUDITED)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements

There were various other updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

NOTE 2 – GOING CONCERN MATTERS

The accompanying unaudited condensed consolidated financial 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 accompanying unaudited condensed consolidated financial statements during the nine months ended September 30, 2008, the Company incurred net losses of \$7,282,247 from its inception on October 14, 1999 through September 30, 2008 and used \$5,091,941 in cash for operating activities from its inception through September 30, 2008. 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. Management is devoting substantially all of its efforts to developing its products and services and there can be no assurance that the Company's efforts will be successful. However, the planned principal operations have not commenced and no assurance can be given that management's actions will result in profitable operations or the resolution of its liquidity problems. The Company is also pursuing additional debt or equity financing through discussions with private investors. There can be no assurance that the Company will be successful in its effort to secure additional financing. The accompanying statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

NOTE 3 - 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 in Staunton, Virginia. 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 (excluding the \$10,000 refundable deposit made previously) of the remaining purchase price at settlement and has financed the remaining \$140,000.

Major classes of property and equipment at September 30, 2008 and December 31, 2007 consisted of the following:



SEAWRIGHT HOLDINGS, INC.  
(a development stage company)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(UNAUDITED)

## NOTE 3 - PROPERTY AND EQUIPMENT (continued)

|                                 | September 30,<br>2008 | December 31,<br>2007 |
|---------------------------------|-----------------------|----------------------|
| Land                            | \$1,023,537           | \$1,965,000          |
| Equipment                       | 32,167                | 32,167               |
| Building improvements           | 261,307               | 261,307              |
|                                 | 1,317,011             | 2,258,474            |
| Less - accumulated depreciation | (26,736 )             | (15,069 )            |
|                                 | \$1,290,275           | \$2,243,405          |

During the nine month period ended September 30, 2008, the Company sold part of the property acquired the years ended December 31, 2005 and 2006 with a cost basis of \$941,463 for proceeds of \$2,389,519 recording a net gain from sale of property of \$1,448,056 in current period operations.

Depreciation expense was \$11,666 and \$5,375 for the nine month periods ended September 30, 2008 and 2007, respectively.

## NOTE 4 - LAND PURCHASE OPTIONS

In March 2008, the President of the Company formed Knox County Minerals, LLC (“Knox Minerals”) pursuant to the Delaware Limited Liability Company Act and transferred his interest in Knox County Minerals, LLC to Seawright Holdings, Inc., and as such the Company became the sole owner of Knox County Minerals, LLC.

On May 6, 2008, Knox Minerals entered into an Agreement Regarding Option (the “Assignment Agreement”) with James R. Golden and John C. Slusher (the “Option Holders”), under which Knox Minerals agreed to acquire the Option Holders’ rights under a Real Estate Purchase Option dated August 2, 2004 (the “Original Option Agreement”) with Dan D. Stewart and Betsy Stewart (the “Stewarts”) regarding certain land owned by the Stewarts in Knox County, Kentucky (the “Knox Land”). At the time the parties entered into the Assignment Agreement, the Option Holders had allegedly exercised their option to acquire the Knox Land under the Original Option Agreement, which was contested by the Stewarts, and the dispute was before the Kentucky Supreme Court.

Under the Assignment Agreement, the parties agreed that the purchase price for the Option Holder’s rights under the Original Option Agreement was \$3,000,000. Knox Minerals deposited \$100,000 in escrow, and had 30 days to conduct due diligence to determine whether it wanted to complete the purchase. If Knox Minerals notified the Option Holders that it was declining to complete the purchase within 35 days after the date of the Assignment Agreement, then it was entitled to a full refund of the \$100,000 deposit. If it did not elect to terminate the Assignment Agreement, the \$100,000 deposit was to be paid to the Option Holders, and would be credited against the purchase price. Knox Minerals was obligated to close within 30 days after the end of the due diligence period in the event it did not elect to terminate the Assignment Agreement. The \$100,000 deposit was included in other noncurrent assets of the Company’s consolidated balance sheet as of September 30, 2008.

On June 12, 2008, Knox Minerals and the Option Holders entered into a First Amendment to the Assignment Agreement, under which the parties agreed that the due diligence period would be extended to June 30, 2008, and the deadline for Knox Minerals to terminate the Assignment Agreement would be extended to June 30, 2008.



SEAWRIGHT HOLDINGS, INC.  
(a development stage company)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(UNAUDITED)

NOTE 4 - LAND PURCHASE OPTIONS (continued)

On July 28, 2008, Knox Minerals and the Option Holders entered into a Second Amendment to the Assignment Agreement, under which the parties agreed that the \$100,000 deposit would be paid to the Option Holders and the deposit would be credited against the purchase price, the due diligence period and closing date would be extended to August 14, 2008, and that Knox Minerals had the option to extend the due diligence period to September 2, 2008 provided it notified the Option Holders in writing that it was exercising said option prior to August 14, 2008 and paid the Option Holders an extension fee of \$1,000 for each day the periods were extended. Knox Minerals subsequently exercised its option to extend the due diligence date to September 2, 2008, and paid the Option Holders an extension fee of \$18,000. The extension fees paid were charged to operations during the nine months ended September 30, 2008.

On August 25, 2008, Knox Minerals and the Option Holders entered into a Third Amendment to the Assignment Agreement, under which the parties agreed that the due diligence period would be extended to September 30, 2008 in consideration for an additional extension fee of \$28,000. The extension fees paid were charged to operations during nine months ended September 30, 2008.

On September 30, 2008, Knox Minerals and the Option Holders entered into a Fourth Amendment to the Assignment Agreement, under which the parties agreed that the due diligence period would be extended to October 31, 2008 in consideration for an additional extension fee of \$31,000, that 50% of the extension fee of \$31,000 would be credited against the purchase price, and that Knox Minerals had the option to extend the due diligence period to December 31, 2008 provided it notified the Option Holders in writing that it was exercising said option prior to October 31, 2008 and paid the Option Holders an extension fee of \$61,000. The Company paid the extension fee of \$31,000 on October 8, 2008 which extended the option through October 31, 2008, but the \$61,000 extension fee was not paid as the Fifth Amendment to the Assignment Agreement was entered into (see Note 8 – Subsequent Events) on October 31, 2008. The Company accounted for \$15,500 (50% of the extension fee of \$31,000 paid on October 8, 2008) as other noncurrent assets.

Subsequent to the date of the financial statements, Knox Minerals and the Option Holders entered into several Amendments to the Assignment Agreement. Knox Minerals ultimately did not close on Knox Land by the deadline therefore, and the Assignment Agreement lapsed (see Note 8 – Subsequent Events).



SEAWRIGHT HOLDINGS, INC.  
(a development stage company)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(UNAUDITED)

## NOTE 5 - NOTES PAYABLE

Notes payable at September 30, 2008 and December 31, 2007 are as follows:

|  | September 30,<br>2008 | December 31,<br>2007 |
|--|-----------------------|----------------------|
| 9.375 % per annum note payable, monthly payments of \$4,592 with remaining principal and outstanding interest due and payable June 2009, collateralized by land. This note was paid in full in July 2008.  | \$ -                  | \$522,918            |
| 7% per annum note payable, due on or before July 1, 2008, uncollateralized. Default interest rate is 2% per month. The Company is in default under the terms of the note agreement at September 30, 2008.  | 187,530               | 300,000              |
| 15% per annum note payable, monthly interest payments, principal due June 8, 2008, collateralized by land – The Company is in default under the terms of the note agreement at September 30, 2008 and December 31, 2007 due to delinquent in payment of interest | 283,000               | 928,000              |
| 24% per annum (default rate 30%) note payable, due September 19, 2008, collateralized by common stock of principle stockholder. The Company was in default under the terms of the note agreement at September 30, 2008.  | 135,000               | -                    |
| 12% per annum note payable, due on or before December 20, 2007, collateralized by signed put notices. This note was settled and paid in full in April 2008.  | -                     | 100,000              |
| 14% per annum note payable, due on or before March 4, 2008, collateralized by signed put notices. This note was settled and paid in full in April 2008.  | -                     | 250,000              |
| 15% per annum (default rate 21%) note payable, due October 13, 2008, collateralized by land, net of prepaid interest of \$2,009  | 372,991               | -                    |
| 12% per annum note payable, due July 3, 2008, uncollateralized. The Company was in default under the term of the note agreement at September 30, 2008.   | 50,000                | -                    |
| 12% per annum note payable, due June 26, 2008, uncollateralized; The Company was in default under the term of the note agreement at September 30, 2008.  | 50,000                | -                    |
| Loan against cash value of principle stockholder's life insurance  | 11,204                | -                    |
| 6% per annum note payable, due November 15, 2008, collateralized by personal guarantee of principle stockholder.   | 47,300                |                      |
|  | 1,137,025             | 2,100,918            |
| Less: current portion  | 1,137,025             | 1,590,314            |
| Note payable – long term   | \$ -                  | \$510,604            |

SEAWRIGHT HOLDINGS, INC.  
(a development stage company)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(UNAUDITED)

NOTE 5 - NOTES PAYABLE (continued)

Fidelity & Trust Bank Loan

On June 29, 2006, the Company borrowed \$525,000 from Fidelity & Trust Bank (the “Lender”). The loan bore interest rate of 9.375% per annum. The loan was payable in 35 regular installments of \$4,592 each and one balloon payment, equal to the principal balance of the Loan, accrued interest, and other applicable fees, costs and charges, due on June 29, 2009. The Loan was secured by a first mortgage on certain real property owned by the Company. This loan was repaid in full on July 8, 2008 upon sale of real estate property (see Note 3).

Theodore J. Kanakis Loan

On March 30, 2007, Theodore J. Kanakis (“Kanakis”) loaned the Company \$300,000 pursuant to an unsecured promissory note bearing interest at 7% per annum and due July 1, 2008. The Company made partial repayment in the third quarter of fiscal year 2008. The balance due at September 30, 2008 and December 31, 2007 was \$187,530 and \$300,000, respectively. On January 15, 2010, the Company entered into a settlement agreement with Kanakis with regards to the outstanding loan balance and unpaid accrued interest. In connection with the settlement, the President of Company repaid Kanakis on behalf of the Company with gold coins of his own, with a value of \$105,000 agreed by Kanakis, and the remaining balance was converted to a new promissory note in the amount of \$150,000. The promissory note dated January 15, 2010 was secured by a subordinate lien on certain property of the Company. On January 22, 2011 the Company entered into an agreement with Kanakis to convert the outstanding balance of the promissory note to the Company’s common stock. (See Note 8 – Subsequent Events).

Charter House, LLC Loan

On June 8, 2006, the Company issued a note to Charter House, LLC in the amount of \$350,000. The note bore interest at 15% per annum, and matured on December 8, 2006, subject to the Company’s right to extend the maturity date for six months and payment of an extension fee of 3% of the outstanding principal balance. The note provided for monthly payments of interest. The note was secured a lien on certain real estate of the Company in Augusta County, Virginia.

On October 5, 2006, the Company and Charter House, LLC modified the note to increase the principal balance to \$515,000. On February 1, 2007, the Company and Charter House, LLC modified the note to increase the principal balance to \$645,000. On November 27, 2007, the Company and Charter House, LLC modified the note to increase the principal balance to \$928,000. The note as modified matured on June 8, 2008. Upon sale of certain real estate in July 2008, the Company repaid \$645,000 of the Charter House loan with the remaining balance of \$283,000 being due and payable on demand. In August 2008, Charter House advanced an additional \$135,000 to the Company. The note is due on September 19, 2008 and collateralized by common stock of principle stockholder. Subsequent to the date of the financial statements, the Company and Charter House entered to a forbearance agreement pursuant to which the Company partially repaid the accrued interest and penalties, and Charter House, LLC agreed not to exercise any remedies under the note until December 31, 2010. The loan went into default after December 31, 2010 when the Company failed to repay the outstanding balance on that date. (See Note 17 – Subsequent Events).



SEAWRIGHT HOLDINGS, INC.  
(a development stage company)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(UNAUDITED)

NOTE 5 - NOTES PAYABLE (continued)

Dutchess Private Equities Fund, LP Loan

\$200,000 Note

On June 20, 2007, the Company issued a note to Dutchess Private Equities Fund, LP in the amount of \$200,000, which bore interest at 12% per annum. Modified due date of the note was January 31, 2008. On September 4, 2007, the Company issued a note to Dutchess Private Equities Fund, LP in the amount of \$250,000, which bore interest at 14% per annum. On November 19, 2007, the Company entered into an addendum of the agreement that extended the maturity date to January 31, 2008. The Company agreed to make payments pursuant to the payment schedule defined in the addendum. On April 14, 2008, the Company entered into a settlement agreement whereby the Company settled and paid in full all principal, interest, penalties and fees due under these two notes for \$380,000.

\$250,000 Note

On September 4, 2007, the Company issued a note to Dutchess Private Equities Fund, LP in the amount of \$250,000, which bore interest at 14% per annum and was due and payable in full on March 4, 2008. The Company received net proceeds of \$235,000 under the note. In addition, the Company agreed to issue 50,000 shares of its common stock to Dutchess as further incentives if the note was not paid in full within 90 days of the date the note was issued. Because the note was not paid by that time, the Company issued the shares during the year ended December 31, 2007. The 50,000 shares of common stock were valued at \$26,450 and accounted for as interest expense during the year ended December 31, 2007. On November 19, 2007, the Company entered into an addendum of the agreement extended that the maturity date to January 31, 2008. The Company agreed to make payments pursuant to the payment schedule defined in the addendum. The note was 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 pledged certain personal property. As of December 31, 2007, the remaining outstanding balance was \$250,000. On April 14, 2008, the Company entered into a settlement agreement whereby the Company settled all principal, interest, penalties and fees due under this note for \$380,000 (see above).

The put notices are rights granted to Dutchess to purchase the Companies' common shares at market price, and the purchase price due from Dutchess is taken as a reduction from the outstanding loan amount at that time the rights are exercised.

Pierre Palian Loan Transactions

On April 14, 2008, the Company issued a note to Pierre Palian in the amount of \$375,000. The note bore interest at 15% per annum, and matured on October 13, 2008. The note balance at September 30, 2008 was \$372,991, net of prepaid interest of \$2,009. The note was secured a lien on certain real estate of the Company in Augusta County, Virginia. The note was guaranteed by Mr. Sens. Subsequent to the date of the financial statements, the Company and Mr. Palian entered into a forbearance agreement with regards to the outstanding liability. The Company did not repay the loan by the extended maturity date as defined in the forbearance agreement and is currently in default. (see Note 8 - Subsequent Events).



SEAWRIGHT HOLDINGS, INC.  
(a development stage company)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(UNAUDITED)

NOTE 5 - NOTES PAYABLE (continued)

Amicus Funding, Inc. Loan

On February 26, 2008, the Company issued a \$50,000 unsecured note payable with 12% per annum interest rate due June 26, 2008. On March 3, 2008, the Company issued a \$50,000 unsecured note payable with 12% per annum interest rate due July 3, 2008. The Company did not pay either note on its maturity date. Amicus Funding, Inc. ("Amicus") later acquired both notes from the original lenders.

The Company agreed to issue the noteholders an aggregate of 100,000 shares of common stock in connection with issuance of these two notes as incentives. The fair value of the common shares amounted to \$25,500, and was accounted for as a debt discount. The Company amortized the debt discount and interest expense of \$25,500 was charged to operations during the nine months ended September 30, 2008. Subsequent to the date of the financial statements, the Company, Amicus and the President of the Company, Joel Sens, entered into several settlements.

American Marketing and Capital, Inc. Loan Transactions

On April 14, 2008, the Company issued a promissory note to American Marketing and Capital, Inc. ("AMC") in the amount of \$300,000 note. The note was due October 13, 2008 and was secured by certain real estate of the Company and 2,100,000 common shares of the Company personally owned by the President of the Company. On May 16, 2008, the Company modified the previously issued \$300,000 note, adding additional borrowing of \$178,800 with the maturity date of the note remained unchanged. On May 30, 2008, the Company modified again the previously issued \$300,000 note, adding an additional borrowing of \$166,500, with the maturity date of the note remained unchanged. The note was repaid in full on July 8, 2008 upon sale of real estate property of the Company.

On August 28, 2008, the Company entered into a new revolving line of credit agreement with AMC and issued a Revolving Credit promissory note to AMC in the amount of \$200,000. The note bore interest at 2% per month, and matures on October 27, 2008. The note was secured by all non-real estate assets of the Company, and by 980,000 shares of common stock of the Company owned by Joel Sens. The Company received proceeds of \$142,500 as of September 30, 2008 from this line of credit (see Note 8- Subsequent Events).

Miscellaneous Note or Finance Transactions

In January 2008, the Company borrowed against the cash value of the life insurance policy of the President of the Company. Interest is approximately at 6% per annum. The total amount owed at September 30, 2008 was \$11,204. On September 30, 2008, the Company issued a \$47,300 note payable with 6% per annum interest due November 15, 2008, secured by personal guarantee of Mr. Sens. The note was issued to a vendor to settle an account payable to the vendor.

NOTE 6 - 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 September 30, 2008 and December 31, 2007, 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 September 30, 2008 and December 31, 2007, there were 13,598,399 shares of common stock issued and outstanding.

SEAWRIGHT HOLDINGS, INC.  
(a development stage company)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(UNAUDITED)

NOTE 7 - RELATED PARTY TRANSACTIONS

From time to time, the Company's President has advanced funds to the Company for working capital purposes. The total amount due to the Company's President was \$54,288 at December 31, 2007. During the nine months ended September 30, 2008, the Company repaid the advances of \$54,288. In addition, the amount remitted to the Company's President exceeded the total balance due. The Company has accounted for the excess payments of \$563,975 to the Company's President during the nine months ended September 30, 2008 as a nonreciprocal transfer to a shareholder and, accordingly, has reflected the overpayment as a direct reduction of additional paid-in capital.

Subsequent to the date of the financial statements, the President of the Company pledged certain of his personal property including common shares of the Company he owned in connection with certain loan transactions. Certain loans were also partially repaid by personal property of the President of the Company. (See Note 8 – Subsequent Events)

NOTE 8- SUBSEQUENT EVENTS

Amicus Funding, Inc. Loan Transactions

As described in Note 5, in February and March 2008 the Company issued two \$50,000 unsecured notes payable. The Company did not pay either note on its maturity date. Amicus Funding, Inc. ("Amicus") later acquired both notes from the original lenders.

On February 10, 2009, the Company, Amicus and the President of the Company, Joel Sens, entered into a settlement agreement with respect to the two notes owned by Amicus, in which the Company paid Amicus \$12,000 in cash and executed a note payable to Amicus in the amount of \$112,000, and Mr. Sens executed a promissory note payable to Amicus in the amount of \$85,000 to evidence a personal debt Mr. Sens owed to Amicus resulted from options and stock purchase agreement between Amicus and Mr. Sens. The note executed by the Company bore interest at 12% per annum. All principal and interest due under the note was due and payable on March 31, 2009.

On November 10, 2009, the Company, Amicus and Mr. Sens entered into a settlement agreement with respect to the notes issued to Amicus under the February 10, 2009 settlement agreement. Under the November 10, 2009 settlement agreement, the Company issued Amicus a note in the amount of \$140,000 which bore interest at 10% per annum and was due and payable on January 29, 2010. The note is subject to a late charge of 5% for any payment not received by its due date. The note was also secured by a subordinate lien on certain property of the Company located in Augusta County, Virginia.

On November 10, 2010, Amicus agreed to convert the \$140,000 note and total unpaid accrued interest of \$10,000 into 375,000 shares of the Company's common stock. Amicus has the right, until March 30, 2011, to put any of the shares back to the Company for cash in the amount of \$0.40 per share. The note was converted and the common shares were issued to Amicus in December 2010.



SEAWRIGHT HOLDINGS, INC.  
(a development stage company)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(UNAUDITED)

NOTE 8- SUBSEQUENT EVENTS (continued)

American Marketing and Capital, Inc. Loan Transactions

On November 7, 2008, the Company and American Marketing and Capital, Inc. (“AMC”) amended their line of credit agreement to increase the amount that the Company could borrow by \$360,000, to a maximum of \$560,000. The amendment also extended the maturity date of the note to January 6, 2009. Under the amendment, the Company granted AMC a lien on certain property of the Company located in Augusta County, Virginia to secure the loan, in addition to the collateral as defined pursuant to the original line of credit agreement dated August 28, 2008 (see Note 5).

On May 5, 2010, the Company and AMC converted the outstanding amount owed to AMC into a Convertible Note in the original principal amount of \$440,000. The Convertible Note was due on October 30, 2010, bore interest at 6% per annum, and was convertible into the Company’s common stock at \$0.40 per share.

On November 9, 2010, the Company and AMC entered an agreement under which AMC converted all principal and interest due under the Convertible Note, which was \$466,400, into 1,166,000 shares of the Company’s common stock. Of the shares issued to AMC, 375,000 shares were issued by the Company in December 2010 and 791,000 shares were supplied by Mr. Sens.

Theodore J. Kanakis Loan Transactions

As described in Note 5, Theodore J. Kanakis loaned the Company \$300,000 pursuant to an unsecured promissory note bearing interest at 7% per annum and due July 1, 2008. The amount due to Mr. Kanakis was \$187,530 and \$300,000 at September 30, 2008 and December 31, 2007, respectively. On January 15, 2010, the Company, Mr. Kanakis and Mr. Sens entered into a settlement agreement, under which Mr. Sens allowed Mr. Kanakis to retain a coin collection, which the parties agreed had a fair value of \$105,000, Mr. Sens pledged as part of the settlement agreement. In addition, the Company issued Mr. Kanakis a note in the amount of \$150,000 in settlement of the Company’s remaining liability to Mr. Kanakis. The note is secured by a subordinate lien on certain property of the Company in Augusta County, Virginia. The note entitled the Company to satisfy the entire amount due under the note by a payment of \$125,000 on or before March 30, 2010. If the note is not paid by March 30, 2010, interest began to accrue on the note at the rate of 1% per month, with monthly interest payments being due on the 5th day of each month. In addition, note provided that if the price of gold increased by more than 10% from the date of execution of the note, the principal amount due on the note would increase by the same percentage that the price of gold increased. The note was due and payable on December 31, 2010. In addition, Mr. Kanakis granted Mr. Sens an option to purchase 500,000 shares (the “Option Shares”) of the Company’s common stock owned by Mr. Kanakis for \$51,000.



SEAWRIGHT HOLDINGS, INC.  
(a development stage company)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(UNAUDITED)

NOTE 8- SUBSEQUENT EVENTS (continued)

On January 22, 2011, the Company, Mr. Kanakis and Mr. Sens entered into an agreement, under which Mr. Kanakis agreed to convert the January 15, 2010 note and unpaid accrued interest and fees into 650,000 shares of the Company's common stock (the "Conversion Shares"). Mr. Kanakis has the right to put the Conversion Shares back to the Company at any time from March 31, 2011 to June 30, 2011 in the event he does not receive total proceeds of \$186,500 from the sale of the Conversion Shares and the Option Shares, in which event the put price for the Conversion Shares shall be the January 15, 2010 note. Mr. Kanakis had sold 100,000 of the Option Shares for \$12,500, and the parties agreed as part of the settlement that he could sell the remaining Option Shares, subject to a limit price of \$0.16 per share. Mr. Kanakis has a potential buyer to purchase the Conversion Shares for \$110,000, and if Mr. Kanakis is not paid by the buyer of the Conversion Shares, he has the right to put his rights and claims against the buyer to the Company in lieu of the Conversion Shares. If Mr. Kanakis is able to sell the remaining Option Shares, but does not sell or receive payment for the Conversion Shares, then Mr. Kanakis may put the Conversion Shares back to the Company for the January 15, 2010 note, in which event the Company shall be entitled to a credit of \$15,000 on the note. To date the 650,000 shares of common stock have not been issued to Mr. Kanakis.

None of the transactions contemplated by the January 22, 2011, were completed. On June 29, 2011, the Company, Mr. Kanakis and Mr. Sens entered into a modification to the January 22, 2011 agreement. Under the modification, Mr. Kanakis agreed that he would sell the remaining Option Shares to an investor identified by Mr. Sens for \$0.18 per share, or \$72,000 by August 15, 2011; provided that he could sell any Option Shares on the open market at a price greater than \$0.18 per share prior to such investor purchasing the Option Shares. The parties also agreed that Mr. Kanakis would sell the Conversion Shares to an investor identified by Mr. Sens for \$110,000 by July 31, 2011.

Charter House, LLC Loan Transactions

As described in Note 5, the Company had outstanding notes due to Charter House, LLC in the amount of \$283,000 and \$928,000 as of September 30, 2008 and December 31, 2007, respectively. In August 2008, Charter House advanced an additional \$135,000 to the Company. On May 10, 2010, the Company and Charter House, LLC entered into a forbearance agreement with regards to the outstanding liability. The unpaid accrued interest, penalty and fees were partially repaid by the Company pursuant to the agreement, and Charter House, LLC agreed not to exercise any remedies under the note until December 31, 2010. The interest rate was agreed to be at 21% per annum. The Company also prepaid interest that would accrue under the note from May 10, 2010 to December 31, 2010 in the amount of \$51,478. The forbearance agreement defined the default rate of interest at 24% per annum, and provided that a default on a note to Kent Carr in the amount of \$750,000 (see below) would constitute a default under the note. If the Company fails to make payment in full of the amount due on or before December 31, 2010, a late charge of 10% of such payment will be added to the amount due. The Company did not repay the loan as of December 31, 2010 and it is currently in default.



SEAWRIGHT HOLDINGS, INC.  
(a development stage company)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(UNAUDITED)

NOTE 8- SUBSEQUENT EVENTS (continued)

Pierre Palian Loan Transactions

As described in Note 5, the Company had a promissory note of \$375,000 due to Pierre Palian. On May 5, 2010, the Company and Mr. Palian entered into a forbearance agreement with regards to the outstanding liability. The unpaid accrued interest, penalty and fees were partially repaid by the Company pursuant to the agreement, and Mr. Palian agreed not to exercise any remedies under the note until December 31, 2010, and increased the interest rate under the note to 21% per annum. The Company also prepaid interest that would accrue under the note from May 10, 2010 to December 31, 2010 in the amount of \$48,972. The forbearance agreement also increased the default rate of interest to 24% per annum, and provided that a default on a note to Kent Carr in the amount of \$750,000 (see below) would constitute a default under the note. The Company did not repay the loan as of December 31, 2010 and it is currently in default.

Kent Carr Loan Transaction

On May 5, 2010, the Company issued a note to Kent Carr in the amount of \$750,000 secured by a first lien on certain real estate property of the Company in Augusta County, Virginia. The note bore interest at 12% per annum and is due on November 1, 2011. The proceeds of the note were used to partially repay indebtedness to Charter House, LLC and Pierre Palian, and miscellaneous fees and charges, and resulted in net proceeds to the Company of \$118,000. As part of the transaction, Charter House, LLC and Mr. Palian subordinated their first mortgage on certain property of the Company in Augusta County, Virginia to the mortgage lien of Mr. Carr.

Miscellaneous Note or Finance Transactions

On November 5, 2009, the Company issued a \$7,500 note payable with 6% per annum interest, due on demand, and unsecured.

Sale of Property

On September 30, 2009, the Company sold real estate property for net proceeds of \$56,477 for a net gain of \$32,940.

Loans to Officer/Significant shareholder

From time to time, the President of the Company, Joel Sens, advanced funds to the Company for working capital purposes. As described in Note 7, the total balance due to Mr. Sens was \$54,288 at December 31, 2007. The Company had paid in full the amount due to Mr. Sens during the nine months ended September 30, 2008. In addition, the total payment the Company remitted exceeded the total balance due to Mr. Sens. At December 31, 2008 and 2009, the excess payment made to Mr. Sens was accounted for as a nonreciprocal transfer to Mr. Sens and, accordingly, a direct reduction of additional paid-in capital. Total overpayment to Mr. Sens amounted to \$648,379 and \$666,947, respectively, at December 31, 2008 and December 31, 2009. The total overpayment was reduced in 2010 by approximately \$120,000, representing salary (excluding tax withholdings) due Mr. Sens for the year ended December



31, 2010, \$105,000 in January 2010 for the value of a coin collection conveyed to a lender of the Company in partial settlement of the loan, and the fair value of 791,000 shares of common stock Mr. Sens personally owned and assigned to another lender as partial settlement of the loan to the Company.

SEAWRIGHT HOLDINGS, INC.  
(a development stage company)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(UNAUDITED)

NOTE 8- SUBSEQUENT EVENTS (continued)

Issuance of Common Stock

As described above, in December 2010 the Company issued 375,000 shares of common stock to Amicus Funding Inc. in connection with the settlement agreement entered into on November 10, 2010, and issued 375,000 shares of common stock to American Marketing and Capital, Inc. pursuant to the settlement agreement dated November 9, 2010.

Knox County Minerals, LLC

As described in Note 4, the Company's wholly owned subsidiary Knox County Minerals, LLC ("Knox Minerals") entered into an Agreement Regarding Option (the "Assignment Agreement") in May 2008 and had several Amendments to the Assignment Agreement as of September 30, 2008. On October 31, 2008, Knox Minerals and the Option Holders entered into a Fifth Amendment to the Assignment Agreement, under which the parties agreed that the due diligence date would be extended to January 30, 2009 if Knox Minerals pays an extension fee of \$91,000 within five days, which Knox Minerals paid. The Company charged \$60,000 of this \$91,000 extension fee to operations for the year ended December 31, 2008, and accounted for the remaining \$31,000 as prepaid expense and was included in other current assets of the Company's consolidated balance sheet as of December 31, 2008. The \$31,000 prepaid expense was amortized and charged to operations in January 2009.

On January 23, 2009, Knox Minerals and the Option Holders entered into a Sixth Amendment to the Assignment Agreement. Prior to the execution of the Sixth Amendment, on January 10, 2009, the Option Holders acquired the Knox Land from the Stewarts. Under the Sixth Amendment, the parties agreed to increase the purchase price for the Knox Land by the amount the Option Holders paid the Stewarts for the Knox Land. In addition, the parties agreed that the due diligence date would be extended to February 28, 2009. No additional consideration was required by the Option Holders for this extension. The parties further agreed that if the closing occurred, Knox Minerals would be entitled to a credit against the purchase price of \$140,000, plus \$15,500 (50% of the extension fee of \$31,000 from the Fourth Amendment), for a total of \$155,000. In addition, certain parts of the Knox Land would be conveyed subject to a 1/32 royalty on any oil and gas produced from the property, or 1% of the gross proceeds paid by a subsequent purchaser of the property. Knox Minerals ultimately did not close on Knox Land by the deadline therefore, and the Assignment Agreement lapsed. The Company wrote off and charged to operations an aggregate of \$115,500 (deposit of \$100,000 from the Assignment Agreement and the \$15,500 of potential credit from the Fourth Amendment) upon the expiration of the Sixth Amendment in the year ended December 31, 2009.

On March 25, 2010, Knox Minerals entered into a Real Estate Purchase Option (the "2010 Option") with the Option Holders, under which Knox Minerals agreed to pay the Option Holders \$100,000 for an option to purchase the oil and gas (including coal bed methane) rights under the Knox Land for an aggregate price of \$1,575,000. The option period was 120 days, except that Knox Minerals had the right to extend the closing date for four additional 30 day periods upon payment of \$25,000 for each period. Next Generation Media Corp., n/k/a Next Generation Energy Corp. ("NGEC"), loaned the Company \$125,000, of which \$100,000 used by Knox Minerals to make the initial option payment to the Option Holders and the remaining \$25,000 was used to pay a brokerage commission due to a broker who arranged the 2010 Option. NGEC's loan is evidenced by a promissory note dated March 25, 2010 in the principal

amount of \$125,000 that is payable in full with interest at 6% per annum twenty-four months after the date of the note.

SEAWRIGHT HOLDINGS, INC.  
(a development stage company)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(UNAUDITED)

NOTE 8- SUBSEQUENT EVENTS (continued)

On April 16, 2010, Knox Minerals entered into an Assignment and Assumption Agreement with NGEC, under which Knox Minerals assigned all of its right, title and interest under the 2010 Option to NGEC. Under the Assignment and Assumption Agreement, NGEC paid Knox Minerals \$600,000 in the form of a promissory note payable in full in sixty months with interest at 6% per annum. NGEC also agreed to grant Knox Minerals a 9% overriding royalty in the property, and to convey to Knox Minerals one of the parcels covered by the option. NGEC made one extension payment to extend the closing date under the 2010 Option, but did not close and the 2010 Option lapsed by its terms.

Subsequent to the assignment of the 2010 Option to NGEC and before its expiration, the President of the Company, Joel Sens, became a significant shareholder and a director of NGEC.

The Company has not netted the \$125,000 loan from NGEC against NGEC's \$600,000 promissory note payable to Knox Minerals because the obligations are not mutual obligations that are subject to offset under the law. A note payable of \$125,000 due to NGEC was accounted for in March 2010, however, the Company did not recognize a gain or a note receivable for the \$600,000 promissory note due from NGEC, based on the assessment that NGEC had limited ability to repay this note and that collection could not be reasonably assured at that time the agreement was entered into. The Company will account for future amounts, if any, that it collects from NGEC as other income only at the time such collection occurs.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

### Disclosure Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q includes forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended ("Forward Looking Statements"). All statements other than statements of historical fact included in this report are Forward Looking Statements. In the normal course of its business, the Company, in an effort to help keep its shareholders and the public informed about the Company's operations, may from time-to-time issue certain statements, either in writing or orally, that contain or may contain Forward-Looking Statements. Although the Company believes that the expectations reflected in such Forward Looking Statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Generally, these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of such plans or strategies, past and possible future, of acquisitions and projected or anticipated benefits from acquisitions made by or to be made by the Company, or projections involving anticipated revenues, earnings, levels of capital expenditures or other aspects of operating results. All phases of the Company operations are subject to a number of uncertainties, risks and other influences, many of which are outside the control of the Company and any one of which, or a combination of which, could materially affect the results of the Company's proposed operations and whether Forward Looking Statements made by the Company ultimately prove to be accurate. Such important factors ("Important Factors") and other factors could cause actual results to differ materially from the Company's expectations are disclosed in this report. All prior and subsequent written and oral Forward Looking Statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the Important Factors described below that could cause actual results to differ materially from the Company's expectations as set forth in any Forward Looking Statement made by or on behalf of the Company.

### 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 chose to develop and acquire packaging for selling our water under the brand names Seawright Springs and Quibell. We 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 ultimately determined that we did not have the capital resources to market and distribute our bottled water as a retail brand, and therefore we discontinued that business strategy. Our business strategy is now focused on negotiating bulk sales of our water to other bottlers, or to municipal, commercial or agricultural users. The fair value of the intangible assets acquired from Quibwell was impaired and reduced to \$0 as of December 31, 2007.

We do not anticipate that our business will require substantial additional capital to the extent it involves the sale of water in bulk from our existing property, because we expect that such sales will be handled by our existing officer. However, we are also considering complimentary acquisitions of other natural resources properties, and will need to raise new capital to complete any acquisitions.

In 2008, we decided to enter the business of owning oil and gas properties, and procured an option on certain properties in Knox County, Kentucky. However, we were unable to close on the purchase and the option lapsed in 2009. In 2010, we procured a new option on the oil and gas rights underlying the same properties, and shortly thereafter assigned the option to a third party. Subsequent to the assignment of the option in 2010, the President of the Company became a significant shareholder and a director of that entity the option was assigned to. This 2010 option also lapsed later in 2010.

## Comparison of Financial Results

Three and Nine months ended September 30, 2008 and 2007

### Revenues

During the three and nine months ended September 30, 2008 and 2007, we generated \$704 and \$4,403 of revenue, respectively, from the Mt. Sidney spring from on-site sales, as compared to \$4,183 and \$6,267 of revenue, respectively, for the same periods ended in the fiscal year 2007. We have discontinued trying to market our bottled water as a retail brand, and have shifted our focus to negotiating bulk sales of our water to other bottlers, or to municipal, commercial or agricultural users. Because of the change in our business strategy, we do not believe that past revenues are reflective of our future revenues.

### Costs and Expenses

From our inception through September 30, 2008, we have incurred net losses of \$7,282,247. 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, interest and financing expenses, and the preparation of our registration statements.

We incurred operating expenses of \$268,740 and \$574,115, respectively, during the three and nine months ended September 30, 2008 as compared to operating expenses of \$574,115 and \$1,556,938, respectively, during the three and nine months ended June 30, 2007. Expenses for the nine months ended September 30, 2008 and 2007 are composed principally of salary, legal and accounting fees, and consulting fees. The Company's operations have been further reduced in the nine months ended September 30, 2008 as compared to the nine months ended June 30, 2007 as a result of our change in strategy with respect to sales of water from our properties.

We incurred total net other income of \$1,039,995 for the nine months ended September 30, 2008, as compared to total net other expenses of (\$809,421) for the nine months ended June 30, 2007. Other expense in both periods was attributable to interest and financing expense on borrowed funds. In the quarter ended September 30, 2008, we generated a gain of \$1,448,056 from the sale of certain real estate.

During the nine months ended September 30, 2008 and 2007, we incurred net income (loss) of \$470,283 and (\$2,360,092), respectively.

### Liquidity and Capital Resources

The following table sets forth the major sources and uses of cash for the nine months ended September 30, 2008 and 2007:

|  | Nine months ended June 30, |                |
|--|----------------------------|----------------|
|  | 2008                       | 2007           |
| Net cash used in operating activities                | \$(705,216 )               | \$(1,554,406 ) |
| Net cash provided by (used in) investing activities  | 2,289,520                  | (85,110 )      |
| Net cash (used in) provided by financing activities  | (1,584,169 )               | 1,637,005      |
| Net increase (decrease) in cash and cash equivalents | \$135                      | \$(2,511 )     |

As of September 30, 2008, we had working capital deficit (total current liabilities in excess of total current assets) of (\$1,579,101), an available cash balance of \$445, an accounts payable and accrued liabilities balance of \$261,900, a line of credit balance of \$142,500, and current notes payable and convertible notes payable of \$1,174,108.

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. Funds will be needed to meet certain of our obligations that are secured by our property in Mt. Sydney, Virginia, and to fund general and administrative expenses. We have been working on business development in recent years to fund our cash needs from the bulk sale of our spring water, but if we are not able to negotiate a bulk sales agreement in a timely fashion, we will need to raise new capital to fund our cash needs.



If 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.

#### Going Concern

Our financial statements have been presented on the basis that we continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements, we have significant recurring losses, and have minimal revenues at this time. These factors create an uncertainty about our ability to continue as a going concern. Management is devoting substantially all of its efforts to developing its products and services and there can be no assurance that the Company's efforts will be successful. However, the planned principal operations have not commenced and no assurance can be given that management's actions will result in profitable operations or the resolution of its liquidity problems. The Company is also pursuing additional debt or equity financing through discussions with private investors. There can be no assurance that the Company will be successful in its effort to secure additional financing. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

#### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

#### Critical Accounting Policies and Estimates

Our significant accounting policies are described in Note 1 of notes to our audited financial statements for the year ended December 31, 2007, which are included in our Annual Report on Form 10-K filed on June 15, 2011. Financial Reporting Release No. 60, published by the SEC, recommends that all companies include a discussion of critical accounting policies used in the preparation of their financial statements. While all these significant accounting policies impact our consolidated financial condition and results of operations, we view certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on our consolidated financial statements and require management to use a greater degree of judgment and estimates. Actual results may differ from those estimates.

We believe that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would cause a material effect on our consolidated results of operations, financial position or liquidity for the periods presented in this report.

#### Recent accounting pronouncements

Recent accounting pronouncements issued by the FASB and the SEC did not, or are not believed by management to, have a material impact on the Company's present or future consolidated financial statements.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Because the Company is a smaller reporting company, it is not required to provide the information called for by this Item.



ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Joel Sens, our chief executive officer and chief financial officer, is responsible for establishing and maintaining our disclosure controls and procedures. Disclosure controls and procedures means controls and other procedures that are designed to ensure that information we are required to disclose in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and to ensure that information required to be disclosed by us in those reports is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Mr. Sens evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of September 30, 2008. Based on that evaluation and because of the Company's limited resources and limited number of employees, it is concluded that our disclosure controls and procedures were ineffective as of September 30, 2008.

Changes in internal controls

There were no changes in our internal controls over financial reporting that occurred during the quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION.

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 1A. RISK FACTORS.

Not applicable.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

At September 30, 2008, the Company was in default under certain loan agreements as described in Note 5 to its unaudited consolidated financial statements.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

Reference is made to the Index to Exhibits following the signature page to this report for a list of all exhibits filed as part of this report.

SIGNATURES

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

Date: July 26, 2011

SEAWRIGHT HOLDINGS, INC.

/s/ Joel Sens

By: Joel Sens, Chief Executive Officer  
(principal executive officer, and principal  
financial and accounting officer)

EXHIBIT INDEX

| Exhibit No. | Description   |
|-------------|---|
| 3.1         | Amended and Restated Certificate of Incorporation of Pre-Settlement Funding Corporation.(1)   |
| 3.2         | Certificate of Designation of Series A Convertible Preferred Shares of Seawright Holdings, Inc.(1)  |
| 3.3         | Amended and Restated By-laws of Seawright Holdings, Inc.(1)   |
| 4.1         | Form of Common Stock Certificate.(2)  |
| 10.1        | Asset Purchase Agreement dated as of June 27, 2005, by and between Seawright Holdings, Inc. and QuiBell Partners, LLC(3)  |
| 10.2        | Deed of Trust Note dated June 8, 2006, by and between Seawright Springs, Inc. and Charter House, LLC. (4)   |
| 10.3        | Modification Agreement dated October 5, 2006 to the Deed of Trust Note dated June 8, 2006, by and between the Seawright Springs, Inc., Palma Collins as Trustee and Charter House, LLC. (5) |
| 10.4        | Forbearance Agreement among Seawright Springs, LLC, Seawright Holdings, Inc. and Charter House, LLC dated May 5, 2010 (6)   |
| 10.5        | Deed of Trust Note executed by Seawright Holdings, Inc. and Seawright Springs, LLC to Pierre Palian in the original principal amount of \$375,000 dated April 14, 2008 (6)                  |
| 10.6        | Deed of Trust executed by Seawright Holdings, Inc. and Seawright Springs, LLC in favor of Pierre Palian dated April 14, 2008 (6)  |
| 10.7        | Forbearance Agreement among Seawright Springs, LLC, Seawright Holdings, Inc. and Pierre Palian dated May 5, 2010 (6)  |
| 10.8        | Note executed by Seawright Springs, LLC to Kent Carr in the original principal amount of \$750,000 dated May 5, 2010 (6)  |
| 10.9        | Deed of Trust executed by Seawright Springs, LLC in favor of Kent Carr dated May 5, 2010 (6)  |
| 10.10       | Confessed Judgment Promissory Note executed by Seawright Holdings, Inc. to Theodore J. Kanakis in the original principal amount of \$150,000 dated January 15, 2010 (6)                     |
| 10.11       | Deed of Trust executed by Seawright Springs, LLC in favor of Theodore J. Kanakis dated January 15, 2010 (6)   |

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- 10.12 Settlement Agreement between Seawright Holdings, LLC, Joel Sens and Theodore J. Kanakis dated January 22, 2011 (6)
- 10.13 6% Convertible Promissory Note executed by Seawright Holdings, Inc. to American Marketing and Capital, Inc. in the original principal amount of \$440,000 dated May 5, 2010 (6)
- 10.14 Settlement Agreement and Mutual Release of Claims between Seawright Holdings, Inc., Joel Sens and Amicus Funding, Inc. dated November 9, 2009 (6)
- 10.15 Letter Agreement between Seawright Holdings, Inc. and American Marketing and Capital, Inc. dated November 9, 2010 (6)
- 10.16 Letter Agreement between Seawright Holdings, Inc. and Amicus Funding, Inc. dated November 10, 2010 (6)
- 31\* Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
- 32\* Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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\* 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 Form 8-K as filed with the SEC on June 30, 2005.
- (4) Incorporated by reference from Registration Statement on Form SB-2 as filed with the SEC on July 17, 2006.
- (5) Incorporated by reference from Form 8-K as filed with the SEC on October 11, 2006.
- (6) Incorporated by reference from Form 10-K for the fiscal year ended December 31, 2007 as filed with the SEC on June 14, 2011.