

SEAWRIGHT HOLDINGS INC
Form 10QSB
May 22, 2006

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED
MARCH 31, 2006

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM
_____ TO _____

COMMISSION FILE NUMBER: 333-56848

SEAWRIGHT HOLDINGS, INC.
(Exact name of small business issuer 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)

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

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes xNo o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes oNo x

As of May 22, 2006, the total number of issued and outstanding shares of the issuer's common stock, par value \$.001, was 8,875,476.

Transitional Small Business Disclosure Format: Yes oNo x

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED).

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

| | | March 31, 2006 (Unaudited) |
|---|----|----------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalent | \$ | 26,447 |
| Marketable securities (Note B) | | 14,175 |
| Deposits | | 125,300 |
| Total current assets | | 165,922 |
| Property and equipment: | | |
| Land | | 1,725,000 |
| Equipment | | 29,438 |
| Building improvement | | 32,180 |
| | | 1,786,618 |
| Less: accumulated depreciation | | 3,707 |
| Total property and equipment | | 1,782,911 |
| Other assets: | | |
| Financing costs, net of accumulated amortization of \$229,269 at March 31, 2006 | | 472,175 |
| Intangible asset | | 33,203 |
| Total other assets | | 505,378 |
| Total assets | \$ | 2,454,211 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ | 139,447 |
| Note payable - current portion (Note C) | | 500,000 |
| Total current liabilities | | 639,447 |
| Convertible notes payable, net of debt discount (Note D) | | 1,105,964 |
| Other long-term liabilities | | 31,527 |
| Total liabilities | | 1,776,938 |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, par value \$.001 per share; 100,000 shares authorized: (Note F) | | |
| Series A Convertible Preferred stock, par value \$.001 per share; 60,000 shares authorized; none issued and outstanding at March 31, 2006 | | |
| | | - |
| Common stock, par value \$.001 per share; 19,900,000 shares authorized; 8,875,476 | | 8,876 |

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shares issued and outstanding at March 31,
2006 (Note F)

| | |
|----------------------------|-------------|
| Additional paid-in-capital | 3,014,376 |
| Preferred stock dividend | (25,000) |
| Accumulated deficit | (2,320,979) |
| Stockholders' equity | 677,273 |

| | | |
|--|----|-----------|
| Total liabilities and stockholders' equity | \$ | 2,454,211 |
|--|----|-----------|

See accompanying notes to unaudited condensed consolidated financial information

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

| | For the three months ended March 31, | | For the Period from October 14, 1999 (date of inception) through March 31, 2006 (As restated - see Note I) |
|--|--------------------------------------|---------------------------------------|--|
| | 2006 | 2005 (As restated - see Note I) | |
| Revenue, net | \$ 590 | \$ 531 | \$ 3,114 |
| Gross profit | 590 | 531 | 3,114 |
| Costs and expenses: | | | |
| Selling, general and administrative | 227,552 | 129,193 | 2,720,394 |
| (Gain) loss on trading securities (Note B) | (200) | 19,408 | (39,126) |
| Depreciation expenses | 658 | 658 | 7,613 |
| Total operating expense | 228,010 | 149,259 | 2,688,881 |
| Loss from operations | (227,420) | (148,728) | (2,685,767) |
| Other income (expenses): | | | |
| Other income | - | 6,912 | 61,948 |
| Gain on early extinguishment of debt | - | 60,000 | 807,103 |
| Interest expense, net | (79,375) | (69,229) | (521,164) |
| | (79,375) | (2,317) | 347,887 |
| Loss from continuing operations before income taxes and discontinued operations | (306,795) | (151,045) | (2,337,880) |
| Provision for income tax | - | - | - |
| Loss from continuing operations before discontinued operations | (306,795) | (151,045) | (2,337,880) |
| Income from discontinued operations | - | - | 16,901 |
| Net loss | (306,795) | (151,045) | (2,320,979) |
| Preferred stock dividend | - | - | (25,000) |
| Net loss attributable to common shareholders | \$ (306,795) | \$ (151,045) | \$ (2,345,979) |
| Losses per common share (basic and assuming dilution) | \$ (0.03) | \$ (0.02) | |
| Weighted average common shares outstanding | 8,875,476 | 8,875,476 | |

See accompanying notes to unaudited condensed consolidated financial information

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

| | Preferred Shares | Preferred Stock Amount | Common Shares | Common Stock Amount | Additional Paid-in Capital | Common Stock Subscriptions | Preferred Stock Dividend | Deficit Accumulated During Development Stage | Total |
|---|---------------------|------------------------------|------------------|---------------------------|----------------------------------|----------------------------------|--------------------------------|--|------------|
| Net loss | - | \$ - | - | \$ - | \$ - | \$ - | \$ - | (1,291) | \$ (1,291) |
| Balance at December 31, 1999 | - | - | - | - | - | - | - | (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) |
| Balance at December 31, 2000 | - | - | 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, | | | | | | | | | |

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

See accompanying notes to unaudited condensed consolidated financial information

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

| | Preferred Shares | Preferred Amount | Common Shares | Common Amount | Additional Paid-in Capital | Common Stock Subscription | Preferred Stock Dividend | Deficit Accumulated During Development Stage | Total |
|---|---------------------|---------------------|------------------|------------------|----------------------------------|---------------------------------|--------------------------------|--|--------------|
| Balance at December 31, 2002 | - | \$ - | 5,368,000 | \$ 5,368 | \$ 183,652 | \$ - | \$ - | \$(1,073,534) | \$ (884,514) |
| Preferred stock issued in exchange for cash at \$5 per share | 55,000 | 55 | - | - | 274,945 | - | - | - | 275,000 |
| Stock options issued in exchange for services rendered | - | - | - | - | 5,276 | - | - | - | 5,276 |
| Net income | - | - | - | - | - | - | - | 506,846 | 506,846 |
| Balance at December 31, 2003 | 55,000 | \$ 55 | 5,368,000 | \$ 5,368 | \$ 463,873 | \$ - | \$ - | \$(566,688) | \$ (97,392) |
| Preferred stock cancelled in exchange for stock options exercised at \$.5625 per share | (5,000) | (5) | 160,000 | 160 | 64,845 | - | - | - | 65,000 |

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| | | | | | | | | | |
|---|----------|------|-----------|----------|--------------|-----------|-------------|--------------|--------------|
| Common stock issued on April 8, 2004 | | | | | | | | | |
| in exchange for cash at \$.30 per share | - | - | 300,000 | 300 | 89,700 | - | - | - | 90,000 |
| Common stock issued and subscribed in connection with private placement | - | - | 2,404,978 | 2,405 | 1,359,491 | 25,581 | - | - | 1,387,477 |
| Conversion of preferred stock to 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, as restated | - | - | - | - | - | - | - | (331,449) | (331,449) |
| Balance at December 31, 2004 | - \$ | - | 8,782,978 | \$ 8,783 | \$ 2,775,485 | \$ 25,581 | \$ (25,000) | \$ (898,137) | \$ 1,886,712 |

See accompanying notes to unaudited condensed consolidated financial information

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

| | Preferred Preferred Shares | Stock Amount | Common Shares | Common Stock Amount | Additional Paid-in Capital | Common Stock Subscription | Preferred Stock Dividend | Deficit Accumulated During Development Stage | Total |
|--|----------------------------------|-----------------|------------------|---------------------------|----------------------------------|---------------------------------|--------------------------------|--|--------------|
| Balance at December 31, 2004 | - | \$ - | 8,782,978 | \$ 8,783 | \$ 2,775,485 | \$ 25,581 | \$ (25,000) | \$ (898,137) | \$ 1,886,712 |
| Common stock issued in connection with common stock subscribed in connection with private placement | - | - | 54,998 | 55 | 25,526 | (25,581) | - | - | - |
| Common stock issued in connection with private placement | - | - | 37,500 | 38 | 25,150 | - | - | - | 25,188 |
| Fractional share - return of proceeds | - | - | - | - | (13) | - | - | - | (13) |
| Beneficial conversion feature of convertible debentures | - | - | - | - | 5,708 | - | - | - | 5,708 |

| | | | | | | | | | |
|--|---|------|-----------|----------|--------------|------|-------------|----------------|-------------|
| Value of warrants attached to convertible debentures | - | - | - | - | 3,020 | - | - | - | 3,020 |
| Expiration of put agreement | - | - | - | - | 90,000 | - | - | - | 90,000 |
| Contributed capital | - | - | - | - | 89,500 | - | - | - | 89,500 |
| Net loss, as restated | - | - | - | - | - | - | - | (1,116,047) | (1,116,047) |
| Balance at December 31, 2005 | - | - | 8,875,476 | 8,876 | 3,014,376 | - | (25,000) | (2,014,184) | 984,068 |
| Net loss | - | - | - | - | - | - | - | (306,795) | (306,795) |
| Balance at March 31, 2006 | - | \$ - | 8,875,476 | \$ 8,876 | \$ 3,014,376 | \$ - | \$ (25,000) | \$ (2,320,979) | \$ 677,273 |

See accompanying notes to unaudited condensed consolidated financial information.

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

| | For the three months ended March 31, 2005 (As restated - See Note I) | | For the period from October 14, 1999 (date of inception) through March 31, 2006 (As restated - See Note I) |
|---|---|------------------|---|
| | 2006 | 2005 | 2006 |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | \$ (96,510) | \$ 202,117 | \$ (1,925,032) |
| NET CASH (USED IN) INVESTING ACTIVITIES | (7,900) | (4,447) | (586,618) |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | - | (337,513) | 2,538,097 |
| NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS | (104,410) | (139,843) | 26,447 |
| Cash and cash equivalents at the beginning of the period | 130,857 | 190,419 | - |
| Cash and cash equivalents at the end of the period | \$ 26,447 | \$ 50,576 | \$ 26,447 |
| Supplemental Disclosures of Cash Flow Information | | | |
| Cash paid during the period for interest | \$ 41,209 | \$ 47,028 | \$ 281,826 |
| Income taxes paid | - | - | - |
| Amortization of financing costs (Note G) | 35,072 | 35,072 | 229,270 |
| Depreciation and amortization | 2,612 | 658 | 9,567 |
| Accretion of interest - trade name liability | 844 | - | 2,465 |
| Amortization of debt discount - beneficial conversion feature of convertible debentures (Note D) | 14,010 | 14,010 | 83,939 |
| Amortization of note discount (Note D) | 14,010 | 14,010 | 83,939 |
| Common stock proceeds received in prior years not deposited to bank account until current period | - | 8,000 | - |
| Gain on early extinguishment of debt | - | (60,000) | (807,103) |
| Changes in valuation of puts issued under termination agreement (Note E) | - | (6,912) | - |

See accompanying notes to unaudited condensed consolidated financial information

SEAWRIGHT HOLDINGS, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION
MARCH 31, 2006
(Unaudited)

NOTE A-SUMMARY OF ACCOUNTING POLICIES

General

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

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Accordingly, the results from operations for the three months period ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. The unaudited condensed financial statements should be read in conjunction with the December 31, 2005 financial statements and footnotes thereto included in the Company's SEC Form 10-KSB.

Business and Basis of Presentation

Seawright Holdings, Inc. (the "Company") was formed on October 14, 1999 under the laws of the state of Delaware. The Company is a "development stage enterprise" (as defined in statement of Financial Accounting Standards No. 7). The Company is currently engaged in the spring water bottling and distribution business. From its inception through the date of these financial statements, the Company has recognized minimal revenues and has incurred significant operating expenses. Consequently, its operations are subject to all risks inherent in the establishment of a new business enterprise. For the period from inception through March 31, 2006, the Company has accumulated losses of \$2,320,979.

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

Reclassification

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

Stock Based Compensation

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

SFAS No. 123(R) requires companies to estimate the fair value of stock-based awards on the date of grant using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as

expense over the requisite service periods. The Company adopted SFAS No. 123(R) using the modified prospective application, which requires the application of the standard starting from January 1, 2006, the first day of the Company's year. The Company's condensed consolidated financial statements for the three months ended March 31, 2006 reflect the impact of SFAS No. 123(R).

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

Prior to the adoption of SFAS No. 123(R), the Company accounted for stock-based awards to employees using the

SEAWRIGHT HOLDINGS, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION
MARCH 31, 2006
(Unaudited)

NOTE A-SUMMARY OF ACCOUNTING POLICIES (Continued)

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 three months ended March 31, 2005 as if compensation expense for stock options issued to employees had been determined consistent with SFAS No. 123:

| | |
|---|--------------|
| Net loss - as reported | \$ (151,045) |
| 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 | (151,045) |
| Net loss attributable to common stockholders - Pro forma | \$ (151,045) |
| Basic (and assuming dilution) loss per share - as reported | \$ (0.02) |
| Basic (and assuming dilution) loss per share - Pro forma | \$ (0.02) |

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 options granted during 2006 or 2005, and all options granted prior to 2005 had fully vested by January 1, 2005.

On November 10, 2005, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. FAS 123(R)-3, "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards," that allows for a simplified method to establish the beginning balance of the additional paid-in capital pool ("APIC Pool") related to the tax effects of employee stock-based compensation and to determine the subsequent impact on the APIC Pool and consolidated statements of cash flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS No. 123(R). The Company has not yet determined if it will elect to adopt the

simplified method.

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SEAWRIGHT HOLDINGS, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION
MARCH 31, 2006
(Unaudited)

NOTE A-SUMMARY OF ACCOUNTING POLICIES (Continued)

Revenue Recognition

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

New Accounting Pronouncements

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.

NOTE B - MARKETABLE SECURITIES

During the period ended March 31, 2006 and the year ended December 31, 2005, the Company classified all of its marketable securities as trading as the securities are bought and held principally for the purpose of selling them in the near term. The Company actively and frequently traded securities with the objective of generating profits on short-term differences in price. The trading securities are marked to market on a monthly basis. At March 31, 2006, the Company’s trading securities are carried at fair value of \$14,175. The Company included a realized net gain of \$200, a net loss of \$19,408, and a net gain of \$39,126 on trading securities in its other income during the three-month period ended March 31, 2006 and 2005, and for the period from October 14, 1999 (date of inception) through March 31, 2006, respectively.

NOTE C - NOTES PAYABLE

Notes payable at March 31, 2006 are as follows:

| | March 31, 2006 |
|---|-------------------|
| 8% note payable, principal and outstanding interest due and payable | \$ 500,000 |

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| | | |
|-----------------------------------|----|---------|
| May 2006, collateralized by land. | | 500,000 |
| Less: current portion | | 500,000 |
| Note payable - long term | \$ | - |

SEAWRIGHT HOLDINGS, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION
MARCH 31, 2006
(Unaudited)

NOTE D - PRIVATE PLACEMENT AND CONVERTIBLE PROMISSORY NOTES PAYABLE

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

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

A summary of convertible promissory notes payable at March 31, 2006 is as follows:

| | March 31, 2006 |
|---|---------------------|
| Convertible notes payable ("Convertible Notes"); 11% per annum; maturity date is in September 2009; noteholder has the option to convert unpaid note principal and interest the Company's common stock at \$0.85 per share. | \$ 1,498,500 |
| Debt Discount - beneficial conversion feature, net of accumulated amortization of \$83,939 at March 31, 2006. | (196,268) |
| Note Discount, net of accumulated amortization of \$83,939 at March 31, 2006. | (196,268) |
| Total | \$ 1,105,964 |
| Less: current portion | - |
| | \$ 1,105,964 |

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

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NOTE D - PRIVATE PLACEMENT AND CONVERTIBLE PROMISSORY NOTES PAYABLE (Continued)

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

The Company amortized the Convertible Notes discount and debt discount attributed to the beneficial conversion feature and recorded non-cash interest expense of \$28,020 for the periods ended March 31, 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 \$7,799 for the periods ended March 31, 2006 and 2005 in relation to the deferred financing costs.

NOTE E - 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 issued under the termination agreement 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. The fair value of the put option is determined each reporting period with changes in the fair value recorded as other income or expense.

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NOTE E - TERMINATION AGREEMENT (Continued)

In October 2005, the termination agreement expired without being exercised. At the time of expiration, the fair value of the accrued liability attributable to the termination agreement 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.

For the period ended March 31, 2005, the Company recorded a gain of \$6,912 in connection with the valuation adjustment on the termination agreement. As the agreement expired in October 2005, no adjustment has been recorded for the period ended March 31, 2006.

NOTE F - CAPITAL STOCK

The Company was incorporated under the laws of the State of Delaware on October 14, 1999 under the name of Pre-Settlement Funding Corporation. The company has authorized 100,000 shares of preferred stock, with a par value of \$.001 per share. The Company has designated 60,000 of its preferred stock as Series A Convertible Preferred Stock. As of March 31, 2006, the Company has no Preferred Stock issued and outstanding. The Company has authorized 19,900,000 shares of common stock, with a par value of \$.001 per share. As of March 31, 2006, there are 8,875,476 shares of common stock issued and outstanding.

NOTE G - STOCK OPTIONS AND WARRANTSStock Options

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

| Exercise Prices | Options Outstanding | | | Options Exercisable | |
|-----------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
| | Number Outstanding | Weighted Average Contractual Life (Years) | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| \$ 0.50 - 2.00 | 1,500,000 | 4.59 | \$ 1.35 | 1,500,000 | \$ 1.35 |

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

| | Number of Shares | Weighted Average Price Per Share |
|----------------------------------|------------------|----------------------------------|
| Outstanding at January 1, 2004 | 1,500,000 | \$ 1.35 |
| Granted | - | - |
| Exercised | - | - |
| Canceled or expired | - | - |
| Outstanding at December 31, 2004 | 1,500,000 | \$ 1.35 |
| Granted | - | - |

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| | | |
|----------------------------------|--------------|------|
| Exercised | - | - |
| Canceled or expired | - | - |
| Outstanding at December 31, 2005 | 1,500,000 | 1.35 |
| Granted | - | - |
| Exercised | - | - |
| Canceled or expired | - | - |
| Outstanding at March 31, 2006 | 1,500,000 \$ | 1.35 |

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NOTE G - STOCK OPTIONS AND WARRANTS (Continued)Warrants

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

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

| Exercise Prices | Warrants Outstanding | | Warrants Exercisable | | |
|-----------------|----------------------|---|---------------------------------|--------------------|---------------------------------|
| | Number Outstanding | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| \$ 0.85 | 594,999 | 3.44 | \$ 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 January 1, 2004 | - | \$ - |
| Granted | 889,200 | 0.85 |
| Exercised | - | - |
| Canceled or expired | - | - |
| Outstanding at December 31, 2004 | 889,200 | 0.85 |
| Granted | 4,500 | 0.85 |
| Exercised | - | - |
| Canceled or expired | - | - |
| Outstanding at December 31, 2005 | 893,700 | \$ 0.85 |
| Granted | - | - |
| Exercised | - | - |
| Canceled or expired | - | - |
| Outstanding at March 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 during the year ended December 31, 2004. The financing costs are being amortized over

the contractual terms (five years) of the convertible debenture. During the periods ended March 31, 2006 and 2005, the Company amortized financing costs and charged to operations \$27,273.

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NOTE H - 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 year 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 \$50,500 and \$144,006 during the years ended December 31, 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 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 payments. The Company has accounted for the net contribution of \$89,500 as an addition to paid-in capital.

NOTE I - RESTATEMENT OF FINANCIAL STATEMENTS

At December 31, 2005, it was determined the correct application of accounting principles had not been applied in the 2004 and the quarterly reporting of 2005 for the Private Placement (Placement), put agreement and overpayment to the shareholder.

The original accounting for the Placement had allocated the proceeds received from the Placement on the residual value method rather than the relative fair value method as prescribed in *EITF 98-5* and *EITF 00-27*. Accordingly, the proceeds attributed to the common stock, convertible debt and warrants have been restated to reflect the relative fair value method.

The puts issued under the termination agreement had initially been recorded under *SFAS 150*; however, the amount attributable to the fair value of the liability was inaccurately reflected. Accordingly, amounts attributed to the fair value of the liability have been restated to reflect the proper valuation.

The overpayment to the shareholder had originally been classified as an increase to operating expenses with repayments by the shareholder recorded as an increase to other operating income. In review of accounting standards, it was determined the transaction was more accurately reflected as a capital transaction due to the control relationship which existed between the shareholder, who is also the Company's President, and the Company. The Company, through the restatement, is accounting for the excess payments to the Company's shareholder as a nonreciprocal transfer and, accordingly, has reflected the overpayment as a direct reduction of additional paid-in capital.

In accordance with *Accounting Principles Board Opinion 20, Accounting Changes (APB 20)* the necessary corrections to apply the accounting principles on the aforementioned transactions were reflected in the reported 2004 financial information presented in the year end 2005 audited financial statements.

We will restate our financial statements as of and for the years ended December 31, 2005 and 2004.

The result of the restatement is to decrease the liability resulting from the termination agreement at December 31, 2005 and 2004 by \$ 200,000 and \$41,248, respectively, and to increase (decrease) the loss for the year ended December 31, 2005 and 2004 by (\$68,752) and \$68,752, respectively, as a result of the changes in fair value of the termination liability during the period.

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Following are reconciliations of the Company's restatement of the Condensed Consolidated Balance Sheet as of December 31, 2005.

| | December 31, 2005 | |
|-------------|----------------------|----------------------|
| | <u>(As Restated)</u> | <u>(As Reported)</u> |
| Assets | \$ 2,713,139 | \$ 2,713,139 |
| Liabilities | \$ 1,729,072 | \$ 1,929,072 |
| Equity | \$ 984,067 | \$ 784,067 |

Following are reconciliations of the Company's restatement of the Condensed Consolidated Balance Sheet as of December 31, 2004.

| | December 31, 2004 | |
|-------------|----------------------|----------------------|
| | <u>(As Restated)</u> | <u>(As Reported)</u> |
| Assets | \$ 3,475,514 | \$ 3,475,514 |
| Liabilities | \$ 1,588,802 | \$ 1,630,050 |
| Equity | \$ 1,886,712 | \$ 1,845,464 |

Interim financials issued in 2005 were also impacted by the incorrect application of accounting principles in continued accounting for the Private Placement, termination agreement and overpayment to the shareholder. Interim financials issued throughout 2005 were not amended as the quarterly differences were deemed not to have a material impact on the originally reported figures. The necessary corrections to apply the accounting principles on the aforementioned transactions are currently reflected in the reported 2005 financial information.

Also reflected in the reported 2005 financial information is a reclassification pertaining to gains and losses on trading securities. The information reported in the prior year's first quarter filing had reflected the loss on trading of securities as an investing activity rather than an operating activity. The reported financial information for gains or losses on trading securities for 2005 has been appropriately modified and is currently reflected as an operating activity.

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The impact to the previously issued 2005 quarterly financial information is as follows:

| | 2005 first quarter financial information as originally reported | 2005 first quarter financial information as reported herein | Amount increase (decrease) |
|----------------|--|--|-------------------------------|
| Net loss | \$ (175,104) | \$ (151,045) | \$ (24,059) |
| Equity | \$ 1,669,688 | \$ 1,667,319 | \$ (2,369) |
| Assets | \$ 2,824,282 | \$ 2,851,753 | \$ 27,471 |
| Liabilities | \$ 1,154,594 | \$ 1,184,434 | \$ 29,840 |
| Loss per share | \$ (0.02) | \$ (0.02) | - |

The resulting effects of the adjustments on first quarter's net loss for 2005 by area are as follows:

| | Amount increase (decrease) in net loss |
|-------------------------------|---|
| Private Placement transaction | \$ 9,353 |
| Termination agreement | 17,088 |
| Shareholder overpayment | (50,500) |
| | \$ (24,059) |

The resulting effects of the prior period adjustments on 2005 cash flows by area are as follows:

| | 2005 first quarter cash flow financial information balance as originally reported | 2005 first quarter cash flow financial information balance as reported herein | Amount increase (decrease) in 2005 first quarter cash flow financial information |
|------------------------------------|---|---|--|
| Net cash from operating activities | \$ 151,617 | \$ 202,117 | \$ 50,500 |
| Net cash from investing activities | \$ (4,447) | \$ (4,447) | - |
| | \$ (287,013) | \$ (337,513) | \$ (50,500) |

Net cash from financing
activities

NOTE J - 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 \$2,320,979. 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.

NOTE K - SUBSEQUENT EVENTS

In April of 2006, the Company closed on a purchase of land located approximately 10 miles south of its Mt. Sidney property. The property purchased is currently zoned for agricultural use. Although no assurances can be given, the purchased site is 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, the Company may lease the property for commercial purposes.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

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

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

Plan of Operation

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

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

We are positioning our water in an effort to compete in the luxury brand category of the water market. We expect to offer a non-sparkling brand and to begin selling bottled water under the "Seawright Springs" brand name in the second quarter of 2006. We will also continue to seek opportunities to sell our daily supply of water to other bottlers.

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

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

For the period from our inception through March 31, 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, one of which has 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 are currently making improvements to plant and equipment at the spring site, and intend to spend approximately \$150,000 to complete renovating our spring catchment, which protects the water spring from outside elements. We expect this project to be completed by June 30, 2006.

Number of Employees

As of March 31, 2006, we had one employee, our chief executive officer and president, Joel Sens. We anticipate that the number of employees will increase in the future. However, given our ability to contract out much of our required services, it is not anticipated, based on the current business plan, that new employees will be hired in the next twelve months. No formal contract for the compensation of Mr. Sens exists as of March 31, 2006, but we may enter into an employment contract with him within the next twelve months.

Comparison of Financial Results

Three Months Ended March 31, 2006 versus Three Months Ended March 31, 2005

Revenues

During the quarter ended March 31, 2006, \$590 of revenue was generated from the Mt. Sidney spring from on site sales as compared to \$531 of revenue for the quarter ended March 31, 2005. We expect to increase our sales in future quarters and will remain a development stage company until revenues increase significantly.

Costs and Expenses

In the quarter ended March 31, 2006 operating expenses were \$228,010. These expenses were related to the establishment of our spring water business, which includes expenses for consulting and engineering services, testing and spring maintenance, and to the administration and overhead of our business, which includes accounting, legal and office expenses. This compared with operating expenses in the quarter ended March 31, 2005 of \$149,259 (as restated). The increase in expenses is due to the increased expenditures on the spring site operations principally related to consulting and engineering.

We have incurred interest expenses of \$79,375 and \$69,229 (as restated) for the quarters ended March 31, 2006 and 2005, respectively. The increase is primarily attributable to our issuance of convertible notes payable in connection with our private placement, which is discussed under Liquidity and Capital Resources below. In the quarters ended

March 31, 2006 and 2005, we also recorded \$28,020 of non-cash interest expense in connection with amortization of debt discount.

In the quarter ended March 31, 2006, we continued our practice of actively and frequently trading securities with the objective of generating profits on short-term differences in price. The trading securities are marked to market on a monthly basis. During the quarters ended March 31, 2006 and 2005, we recorded a net gain of \$200 and a net loss of \$19,408, respectively, on our trading securities.

In connection with puts issued under a termination agreement that we entered into with regard to our common stock, in the quarter ended March 31, 2005 we recognized non-cash earnings of \$6,912, which was a result of the decrease in the fair value of the puts from December 31, 2005 to March 31, 2006.

We accounted for an excess payment resulting from loan overpayments to our President of \$50,500 in the quarter ending March 31, 2005 as a return of contributed capital to a shareholder.

Liquidity and Capital Resources

As of March 31, 2006, we had a working capital deficit of \$473,525, an available cash balance of \$26,447, a marketable securities balance of \$14,175 and an accounts payable and accrued liabilities balance, including accrued interest on the convertible notes, of approximately \$139,447.

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 were 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. We expect to finance the remaining \$500,000 of the purchase price 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 \$100,000 of the remaining purchase price at settlement and the remaining \$130,000 will initially be owner financed.

Our accounts payable and accrued liabilities of \$139,447 is composed predominantly of liabilities to our consultants and vendors associated with the Mt. Sidney spring, our accountants and lawyers and accrued interest on our convertible notes payable.

In order to provide funding for operations and capital expenditures, on September 12, 2005, we entered into an investment agreement with Dutchess Private Equities Fund, LP. The investment agreement establishes what is sometimes referred to as an "equity line of credit." Under the investment agreement, Dutchess has agreed to provide us with up to \$5,000,000 during the 36-month period following the date a registration statement of our common stock is declared effective by the Securities and Exchange Commission. During this 36-month period, we may request a draw down under the equity line of credit by which we would sell shares of our common stock to Dutchess, which is obligated to purchase the shares under the investment agreement, subject to certain conditions set forth therein. We may, at our election, require Dutchess to purchase an amount equal to no more than either (a) 200% of the average daily volume of our common stock for the 10 trading days prior to the put notice date, multiplied by the average of the three daily closing bid prices immediately preceding the put notice date or (b) \$100,000; provided that we may not request more than \$1,000,000 in any single put notice. On the trading day following the put notice date, a pricing period of five trading days will begin. The purchase price for the common stock identified in the put notice will be equal to 95% of the lowest closing best bid price of our common stock during the pricing period. We are under no obligation to draw down under the equity line of credit. As of the date of filing of this Form 10-QSB, no registration statement has been filed with respect to our common stock to be issued under the equity line of credit or the investment agreement.

Future Funding Requirements and Going Concern

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

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

Our independent certified public accountants have stated in their report included in our December 31, 2005 Form 10-KSB, that we have incurred operating losses since our inception, and that we are dependent upon management's ability to develop profitable operations. These factors among others may raise substantial doubt about our ability to continue as a going concern.

Off-Balance Sheet Arrangements

We have not had, and at March 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.

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 establishment of an equity line of credit as described above, but it is possible that we will not be able to establish the equity line of credit, or that proceeds from the equity line of credit will be insufficient to cover our future expenses.

Potential fluctuations in quarterly operating results

Our quarterly operating results may fluctuate significantly in the future as a result of a variety of factors, most of which are outside our control, including: market acceptance of our products, the demand for the spring water services and related products; seasonal trends in demand; the amount and timing of operating costs and capital expenditures relating to the expansion of our business, operations and infrastructure, and the implementation of marketing

programs, key agreements and strategic alliances; our ability to obtain additional financing in a timely manner and on terms favorable to us; the introduction of new services and products by us or our competitors; price competition or pricing changes in the industry; technical difficulties; and general economic conditions specific to the beverage market and the spring water industry. Our quarterly results may also be significantly affected by the impact of the accounting treatment of acquisitions, financing transactions or other matters. Particularly at our early stage of development, such accounting treatment can have a material impact on the results for any quarter. Due to the foregoing factors, among others, it is likely that our operating results will fall below our expectations or investors' expectations in some future quarter.

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

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

Management of growth

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

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

Risks associated with acquisitions

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

Other Risks

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

ITEM 3. CONTROLS AND PROCEDURES

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

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Disclosure controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving an entity's disclosure objectives. The likelihood of achieving such objectives is affected by limitations inherent in disclosure controls and procedures. These include the fact that human judgment in decision making can be fully faulty and that breakdowns in internal control can occur because of human failures such as errors or mistakes or intentional circumvention of the established process.

During the quarter ended March 31, 2006,, there were no changes in internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II.

ITEM 1. LEGAL PROCEEDINGS.

None.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

There were no matters submitted requiring a vote of security holders during the three month period ending March 31, 2006.

ITEM 5. OTHER INFORMATION.

None.

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

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

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

SIGNATURES

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

Seawright Holdings, Inc.

Date: May 22, 2006

By: /s/ Joel Sens

Name: Joel Sens

Title: Chief Executive Officer