

SEAWRIGHT HOLDINGS INC
Form 10-Q
January 25, 2012

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

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, 2011

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 January 20, 2012 |
|---------------------------------|--|
| Common Stock, \$0.001 Par Value | 14,348,399 |

SEAWRIGHT HOLDINGS, INC.

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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, 2011 (unaudited) | December 31, 2010 |
|---|--------------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Capitalized financing costs | \$1,767 | \$18,757 |
| Total current assets | 1,767 | 18,757 |
| Property and equipment, net | 1,223,587 | 1,233,520 |
| Other assets | 30,214 | 30,214 |
| Total assets | \$1,255,568 | \$1,282,491 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Bank overdraft | \$- | \$1,857 |
| Accounts payable and accrued expenses | 990,696 | 566,897 |
| Convertible notes payable, net of debt discount | 60,000 | 47,253 |
| Notes payable, current portion | 1,871,815 | 1,800,775 |
| Notes payable due to related parties, current portion | 190,000 | 65,000 |
| Put liability | 150,000 | 150,000 |
| Other liabilities | 50,000 | 50,000 |
| Total current liabilities | 3,312,511 | 2,681,782 |
| Long-term liabilities: | | |
| Note payable due to related party, long term | - | 125,000 |
| Derivative liability | 25,465 | 950 |
| Total liabilities | 3,337,976 | 2,807,732 |
| STOCKHOLDERS' DEFICIT | | |
| 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, 2011 and December 31, 2010 | - | - |
| Common stock, par value \$0.001 per share; 19,900,000 shares authorized; 14,348,399 shares issued and outstanding as of September 30, 2011 and December 31, 2010 | 14,348 | 14,348 |

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| | | |
|--|--------------|--------------|
| Common shares to be issued | 36,896 | 36,896 |
| Additional paid in capital | 7,505,380 | 7,370,877 |
| Accumulated deficit during development stage | (9,639,032) | (8,947,362) |
| Total stockholders' deficit | (2,082,408) | (1,525,241) |
| Total liabilities and stockholders' deficit | \$1,255,568 | \$1,282,491 |

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 September 30, | | Nine months ended September 30, | | For the period from October 14, 1999 (date of inception) through September 30, 2011 |
|---|----------------------------------|------------|---------------------------------|------------|---|
| | 2011 | 2010 | 2011 | 2010 | |
| Revenue, net | \$ - | \$ - | \$ - | \$ - | \$ 19,611 |
| Cost and expenses: | | | | | |
| Selling, general and administrative | 107,429 | 88,602 | 295,751 | 390,807 | 6,734,204 |
| Impairment of trade name | - | - | - | - | 19,529 |
| (Gain) loss on sale of trading securities | - | - | - | - | (37,356) |
| Depreciation and amortization | 3,311 | 3,691 | 9,933 | 11,073 | 89,419 |
| | 110,740 | 92,293 | 305,684 | 401,880 | 6,805,796 |
| Operating loss | (110,740) | (92,293) | (305,684) | (401,880) | (6,786,185) |
| Other income (expense): | | | | | |
| Other income | - | - | - | - | 62,302 |
| Gain on sale of property | - | - | - | - | 1,480,996 |
| Gain on settlement of debt | - | - | - | 606,058 | 1,593,236 |
| (Loss) gain on change in fair value of debt derivative | (17,668) | - | (24,515) | - | 12,851 |
| Interest expense, net | (86,775) | (113,149) | (361,471) | (523,882) | (5,994,133) |
| Total other income (expense) | (104,443) | (113,149) | (385,986) | 82,176 | (2,844,748) |
| Loss from continuing operations before income taxes and discontinued operations | (215,183) | (205,442) | (691,670) | (319,704) | (9,630,933) |

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| | | | | | |
|---|---------------|---------------|---------------|---------------|-----------------|
| Provision for income taxes | - | - | - | - | - |
| Loss from continuing operations before discontinued operations | (215,183) | (205,442) | (691,670) | (319,704) | (9,630,933) |
| Income from discontinued operations | - | - | - | - | 16,901 |
| Net loss | (215,183) | (205,442) | (691,670) | (319,704) | (9,614,032) |
| Preferred stock dividend | - | - | - | - | (25,000) |
| Net loss attributable to common shareholders | \$ (215,183) | \$ (205,442) | \$ (691,670) | \$ (319,704) | \$ (9,639,032) |
| Loss per common share, basic and fully diluted | \$ (0.01) | \$ (0.02) | \$ (0.05) | \$ (0.02) | |
| Weighted average number of common shares outstanding, basic and fully diluted | 14,348,399 | 13,598,399 | 14,348,399 | 13,598,399 | |

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 30, | | For the period From October 14, 1999 (date of inception) through September 30, 2011 |
|--|---------------------------------|------------|---|
| | 2011 | 2010 | 2011 |
| Net cash used in operating activities | (134,503) | (675,131) | (6,372,285) |
| Net cash (used in) provided by investing activities | - | (100,000) | 1,229,622 |
| Net cash provided by financing activities | 134,503 | 775,131 | 5,142,663 |
| Net (decrease) increase in cash and cash equivalents | - | - | - |
| Cash and cash equivalents, beginning of period | - | 580 | - |
| Cash and cash equivalents, end of period | \$ - | \$ 580 | \$ - |
| Supplemental Disclosures of Cash Flow Information: | | | |
| Cash paid for interest | \$ - | \$ 466,900 | \$ 1,951,963 |
| Cash paid for income taxes | \$ - | \$ - | \$ - |
| Non cash investing and financing activities: | | | |
| Common stock issued in exchange for notes payable and accrued interest | \$ - | \$ - | \$ 761,515 |
| Common stock issued in exchange for convertible notes payable and accrued interest | \$ - | \$ - | \$ 1,507,067 |
| Common stock to be issued in exchange for convertible notes payable | \$ - | \$ - | \$ 11,396 |
| Notes payable and accrued interest settled by officer | \$ - | \$ 105,000 | \$ 421,400 |
| Common stock issued in connection with issuance of notes payable | \$ - | \$ - | \$ 25,500 |
| Common stock issued in exchange for stock incentive liabilities | \$ - | \$ - | \$ 127,500 |
| Transfer of deposit to property and equipment | \$ - | \$ - | \$ 57,600 |
| Notes payable issued in exchange for accrued liabilities | \$ - | \$ - | \$ 71,413 |
| Notes payable issued in connection with capital expenditures | \$ - | \$ - | \$ 1,325,000 |
| 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, 2011
(UNAUDITED)

NOTE 1 – SIGNIFICANT 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 10Q. 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 and nine month period ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The unaudited condensed financial statements should be read in conjunction with the December 31, 2010 financial statements and footnotes thereto included in the Company's SEC Form 10 K.

The condensed consolidated financial statements as of December 31, 2010 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, 2011, the Company has accumulated losses of \$9,639,032.

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

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.

SEAWRIGHT HOLDINGS, INC.
(a development stage company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(UNAUDITED)

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 nine months ended September 30, 2011, the Company incurred a net loss of \$691,670, had accumulated deficit since its inception from October 14, 1999 through September 30, 2011 of \$9,639,032 and used \$6,372,285 in cash for operating activities from its inception through September 30, 2011. 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.

Major classes of property and equipment at September 30, 2011 and December 31, 2010 consisted of the following:

| | September 30, 2011 | December 31, 2010 |
|---------------------------------|-----------------------|----------------------|
| Land | \$ 1,000,000 | \$ 1,000,000 |
| Equipment | 32,167 | 32,167 |
| Building improvements | 261,307 | 261,307 |
| | 1,293,474 | 1,293,474 |
| Less - accumulated depreciation | (69,887) | (59,954) |
| | \$ 1,223,587 | \$ 1,233,520 |

Depreciation expense was \$3,311 and \$3,691 for the three month periods ended September 30, 2011 and 2010, respectively, and \$9,933 and \$11,073 for the nine months ended September 30, 2011 and 2010, respectively.

SEAWRIGHT HOLDINGS, INC.
(a development stage company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(UNAUDITED)

NOTE 4 – NOTES PAYABLE

Notes payable at September 30, 2011 and December 31, 2010 are as follows:

| | September 30, 2011 | December 31, 2010 |
|---|-----------------------|----------------------|
| 15% per annum note payable, monthly interest payments, principal due June 8, 2008, collateralized by land. The note and unpaid accrued interest was settled in May 2010 with a new principal of \$375,000, interest at 21% per annum (default rate at 24% per annum). The lender added an additional aggregate of \$90,000 to the principal (\$45,000 in November 2010 and \$45,000 in May 2011) when interest payment to Kent Carr loan was made on behalf of the Company. The Company became in default after December 31, 2010 upon the expiration of a forbearance agreement. (1) | \$ 465,000 | \$ 420,000 |
| 7% per annum note payable, due on or before July 1, 2008, uncollateralized. The note and unpaid accrued interest was settled in January 2010, with partial repayment made by the Company's officer, resulted in a new principal of \$150,000 that is subject to adjustment in accordance with gold price. At September 30, 2011 and December 31, 2010, the adjusted principal amount is \$215,040 and \$189,000, respectively. (2) | 215,040 | 189,000 |
| 6% per annum note payable due to related party, due March 25, 2012, uncollateralized | 125,000 | 125,000 |
| 12% per annum (default rate 18%) note payable, due November 1, 2011, collateralized by land | 750,000 | 750,000 |
| Noninterest bearing notes payable due to related party, due on demand, uncollateralized | 47,500 | 47,500 |
| 15% per annum (default rate 21%) note payable, due October 13, 2008, collateralized by land; The Company became in default after December 31, 2010 upon the expiration of a forbearance agreement. The default interest rate was 24% pursuant to the forbearance agreement. | 375,000 | 375,000 |
| 6% per annum note payable, due November 15, 2008, collateralized by personal guarantee of principle stockholder. The Company was in default under the terms of the note agreement at September 30, 2011 and December 31, 2010. | 47,300 | 47,300 |

SEAWRIGHT HOLDINGS, INC.
(a development stage company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(UNAUDITED)

(Continued)

| | September 30, 2011 | December 31, 2010 |
|---|-----------------------|----------------------|
| Loan against cash value of principle stockholder's life insurance | 19,475 | 19,475 |
| 6% per annum note payable due to related party, due on demand, uncollateralized | 17,500 | 17,500 |
| Total | 2,061,815 | 1,990,775 |
| Less: notes payable, current portion | (1,871,815) | (1,800,775) |
| Less: notes payable due to related party, current portion | (190,000) | (65,000) |
| Note payable due to related party— long term | \$ - | \$ 125,000 |

(1) Charter House's Loan Transactions

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 additional \$135,000 to the Company. The note was due on September 19, 2008 and collateralized by common stock of principle stockholder.

On May 10, 2010, the Company repaid the \$135,000 note in full and the Company and Charter House, LLC entered into a forbearance agreement with regards to the outstanding liability related to the \$283,000 loan. The unpaid principal, 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 new principal amount was agreed to be \$375,000 with interest rate agreed to be 21% per annum. The Company recorded additional interest and financing expense in the amount of \$124,684 in connection with the settlement. 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 as 24% per annum, and provided that a default on a note to Kent Carr in the amount of \$750,000 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 is currently in default. In November 2010 and May 2011, Charter House paid interest in aggregate of \$90,000 to Kent Carr on behalf of the Company, resulted in the principal amount due to Charter House amounted to \$465,000 and \$420,000, respectively, at September 30, 2011 and December 31, 2010.

SEAWRIGHT HOLDINGS, INC.
(a development stage company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(UNAUDITED)

(2) Theodore J. Kanakis Loan Transactions

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 of this note during the year ended December 31, 2008, with the remaining unpaid principal balance of \$187,530 at December 31, 2008. 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 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 and 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 due 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. The principal amount of the note was adjusted to \$215,040 and \$189,000 as of September 30, 2011 and December 31, 2010, respectively, in accordance of the gold price clause. The increase of \$14,535 and \$26,040 in the principal amount during the three and nine months ended September 30, 2011 was charged to interest expense.

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 agreement 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. No shares were issued under the June 29, 2011 modification agreement and that agreement has since expired.

SEAWRIGHT HOLDINGS, INC.
(a development stage company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(UNAUDITED)

NOTE 5 – PRIVATE PLACEMENT AND CONVERTIBLE PROMISSORY NOTES PAYABLE

Private Placement in fiscal year 2004 and 2005

The Company entered into a Private Placement Memorandum in August 2004 to offer up to 1,000 units at \$3,000 per unit 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 note holder 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.

In accordance with Accounting Standards Codification subtopic 470-20, Debt With Conversions and Other Options (“ASC 470-20”), the Company allocated, on a relative fair value basis, the net proceeds amongst the common stock, convertible notes and warrants issued to the investors. As of December 31, 2005, the Company had recognized a discount to the notes in the amount of \$280,207. The note discount is being amortized over the maturity period of the notes, being five years. As of December 31, 2005, the Company had recognized a total of \$280,207 of the proceeds, which is equal to the intrinsic value of the imbedded beneficial conversion feature, to additional paid-in capital and a discount against the Convertible Note. The debt discount attributed to the beneficial conversion feature is amortized over the Convertible Notes’ maturity period, being five years, as interest expense.

In connection with the placement of the Convertible Notes, the Company issued detachable warrants granting the holders the right to acquire a total of 299,700 shares of the Company’s common stock at \$0.85 per share as of December 31, 2005. The warrants expire five years from their issuance. As of December 31, 2005, the Company had recognized the value attributable to the warrants, being \$190,143, to additional paid-in capital. The Company valued the warrants in accordance with ASC 470-20 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%.

During the year ended December 31, 2007 the Company offered additional consideration on the convertible debt in an effort to induce conversion. The majority of converting note holders agreed to a conversion rate of one share of common stock for each \$0.60 of principal and unpaid interest accrued through the closing date while the minority of converting note holders retained the original conversion rate of one share of common stock for each \$0.85 of principal and unpaid interest accrued through the closing date. All converting note holders received an additional six months of interest at the rate of 11% per annum. The Company accounted for the conversion in accordance with ASC 470-20 by recognizing an expense of \$1,215,417 which is equal to the excess of the fair value of the additional consideration issued pursuant to the original conversion terms. The note holders agreed to convert a total of \$1,458,500 of

convertible notes and accrued interest of \$138,649 into 2,641,611 shares of common stock. The Company issued 2,628,204 shares of common stock as of December 31, 2007, with the remaining 13,407 shares of common stock accounted for as stock to be issued. The remaining unpaid balance of the convertible debt is \$40,000 at September 30, 2011 and December 31, 2010. All debt discount and financing costs related to the convertible debt had been amortized in full upon the maturity of the debt in September 2009.

SEAWRIGHT HOLDINGS, INC.
(a development stage company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(UNAUDITED)

(continued)

Sisler Convertible Note

On October 26, 2010, the Company issued a \$20,000 convertible promissory note due April 26, 2011, unsecured. The note bears interest at a rate of 12% per annum and will be convertible into the Company's common stock at any time after the maturity date of the note at the holder's option, into common stock at the conversion rate of 70% of average market price fifteen trading days prior to notice of conversion.

The Company is in default under the terms of the notes. The Company has identified embedded derivatives related to the convertible promissory note entered into on October 26, 2010. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record fair value of the derivatives as of the inception date of the convertible promissory note and to fair value as of each subsequent balance sheet date. At the inception of the convertible promissory note, the Company determined a fair value \$38,316 of the embedded derivative. The fair value of the embedded derivative was determined using the Binomial Option Pricing Model based on the following assumptions:

| | |
|-----------------|---------|
| Dividend yield: | -0-% |
| Volatility | 279.98% |
| Risk free rate: | 0.17% |

The initial fair value of the embedded debt derivative of \$38,316 was allocated as a debt discount up to the proceeds of the note (\$20,000) with the remainder (\$18,316) charged to interest expense for the year ended December 31, 2010. During the three and nine months ended September 30, 2011, the Company amortized and charged \$Nil and \$12,747 of the debt discount to interest expense.

A summary of convertible promissory notes payable at September 30, 2011 and December 31, 2010 are as follows:

| | September 30, 2011 | December 31, 2010 |
|--|-----------------------|----------------------|
| Convertible notes payable ("Convertible Notes"); 11% per annum; matured in September 2009; note holder has the option to convert unpaid note principal and interest to the Company's common stock at \$0.85 per share. | \$ 40,000 | \$ 40,000 |
| Convertible promissory note – 12% per annum, due April 26, 2011, net of unamortized debt discount of \$-0- and \$12,747 at September 30, 2011 and December 31, 2010, respectively | 20,000 | 7,253 |
| Total | \$ 60,000 | \$ 47,253 |
| Less: current portion | (60,000) | (47,253) |
| Convertible Note- long term portion | \$ - | \$ - |

NOTE 6 – DERIVATIVE LIABILITY

As described in Note 5 above, on October 26, 2010, the Company issued a 12% convertible promissory note that contained embedded derivatives. The embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments required that the Company record the derivatives at their fair values as of the inception date of the convertible promissory note in the amount of \$38,316 and at fair value as of each subsequent balance sheet date. Any change in fair value was recorded as non-operating, non-cash income or expense at each reporting date. If the fair value of the derivatives was higher at the subsequent balance sheet date, the Company recorded a non-operating, non-cash charge. If the fair value of the derivatives was lower at the subsequent balance sheet date, the Company recorded non-operating, non-cash income.

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The Company recorded a loss on change in fair value of derivative liability of \$17,668 and \$24,515 for the three and nine months ended September 30, 2011.

The fair value of the derivative liability at September 30, 2011 was determined using the Binomial Option Pricing Model with the following assumptions:

| | |
|-----------------|---------|
| Dividend yield: | -0-% |
| Volatility | 354.01% |
| Risk free rate: | 0.06% |

At September 30, 2011, the derivative liability valued at \$25,465, the Company believes an event under the contract that would create an obligation to settle in cash or other current assets is remote and has classified the obligation as a long term liability.

NOTE 7 – 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 \$0.001 per share. The Company has designated 60,000 of its preferred stock as Series A Convertible Preferred Stock. As of September 30, 2011 and December 31, 2010, 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 \$0.001 per share. As of September 30, 2011 and December 31, 2010, there were 14,348,399 shares of common stock issued and outstanding.

Put Agreement

On November 10, 2010, Amicus Funding, Inc converted \$140,000 debt and total unpaid accrued interest of \$10,000 into 375,000 shares of the Company's common stock. In connection with this transaction, Amicus has the right, until March 30, 2011 (subsequently extended to December 31, 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. As such, the Company recorded a potential liability of \$150,000.

NOTE 8 – RELATED PARTY TRANSACTIONS

From time to time, the Company's President, Joel Sens, has advanced funds to the Company for working capital purposes. At times the total payment the Company repaid to the Company's President and (or) the funds the President of the Company withdrew exceeded the total balance due. The Company accounted for the excess payments to the Company's President as a nonreciprocal transfer to a shareholder and, accordingly, has reflected the overpayment as a direct reduction of additional paid-in capital. The total balance due from Mr. Sens was \$214,243 at December 31, 2010.

During the nine months ended September 30, 2011, the aggregate contribution to the benefit of the Company by Mr. Sens, was \$134,503, which was accounted for as an addition to additional paid-in capital. The total balance due from Mr. Sens was \$79,741 at September 30, 2011.

The Company's President has guaranteed certain loans to the Company, and/or pledged certain personal property to secure loans to the Company. 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.

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As of September 30, 2011 and December 31, 2010, the Company was indebted to Next Generation Energy Corp. (“NGEC”) for \$125,000 under a promissory note dated March 25, 2010, which note bears interest at 6% per annum and is due 24 months after the date of the note (Note 4). In addition, as of September 30, 2011 and December 31, 2010 the Company was indebted to NGEC for \$17,500 for a loan that bears interest at 6% per annum and is due on demand (Note 4). As of September 30, 2011 and December 31, 2010, the Company was indebted to NGEC for \$47,500, which loan is non-interest-bearing and due on demand. In May 2010, Mr. Sens became an officer and director of NGEC, and in October 2010 became a significant shareholder of NGEC.

NOTE 9 – FAIR VALUE

ASC 825-10 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. ASC 825-10 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 825-10 establishes three levels of inputs that may be used to measure fair value:

- A) Market approach—Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;
- B) Cost approach—Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and
- C) Income approach—Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques, and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

The Company adopted the provisions of ASC 825-10 prospectively effective as of the beginning of its Fiscal 2008. For financial assets and liabilities included within the scope of ASC 825-10, the Company will be required to adopt the provisions of ASC 825-10 prospectively as of the beginning of Fiscal 2009. The adoption of ASC 825-10 did not have a material impact on our consolidated financial position or results of operations.

The carrying value of the Company’s cash and cash equivalents, accounts receivable, accounts payable, short-term borrowings (including convertible notes payable), and other current assets and liabilities approximate fair value because of their short-term maturity.

Items recorded or measured at fair value on a recurring basis in the accompanying consolidated financial statements consisted of debt derivative liabilities.

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| | Quoted Prices in Active Markets for Identical Instruments Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 | Assets at fair Value |
|---------------------------------------|---|---|--|-------------------------|
| Liabilities: | | | | |
| Convertible debt derivative liability | \$ - | \$ - | \$ (25,465) | \$ (25,465) |
| Total | \$ - | \$ - | \$ (25,465) | \$ (25,465) |

The following table provides a summary of changes in fair value of the Company's Level 3 financial liabilities as of September 30, 2011:

| | |
|---|-----------------------------------|
| | Convertible Debt Derivative |
| Balance, December 31, 2010 | \$ 950 |
| Total gains: | |
| Initial fair value of debt derivative at note issuance | |
| Mark-to-market at September 30, 2011: | |
| - Debt Derivative | 24,515 |
| Balance, September 30, 2011 | \$ 25,465 |
| Net loss for the period included in earnings relating to the liabilities held at September 30, 2011 | |
| | \$ (24,515) |

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, 2011 and 2010

Revenues

During the three and nine months ended September 30, 2011 and 2010, we generated no revenues. 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, 2011, we have incurred net losses of \$9,639,032. 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 \$110,740 and \$305,684, respectively, during the three and nine months ended September 30, 2011 as compared to expenses of \$92,293 and \$401,880, respectively, during the three and nine months ended September 30, 2010. Expenses for the three and nine months ended September 30, 2011 and 2010 are composed principally of salary, legal and accounting fees, and consulting fees.

We incurred total other (expenses) of \$(104,443) and \$(385,986), respectively, for the three and nine months ended September 30, 2011, as compared to (expenses) income of \$(113,149) and \$82,176, respectively, for the three and nine months ended September 30, 2010. Other expense in both periods was mainly attributable to interest and financing expense on borrowed funds. However, in the nine months ended September 30, 2010, we generated other income of \$606,058 from gain on settlement of debt. The decrease in interest and financing expenses in the three and nine months ended September 30, 2011 as compared to the same periods ended September 30, 2010 was mainly due to the settlement of line of credit in May 2010.

During the nine months ended September 30, 2011 and 2010, we incurred net loss of \$(691,670) and \$(319,704), respectively. During the three months ended September 30, 2011 and 2010, we incurred net loss of \$(215,183) and \$(205,442), respectively.

Liquidity and Capital Resources

The following table sets forth the major sources and uses of cash for the nine months ended September 30, 2011 and 2010:

| | Nine months ended September 30, | |
|---|------------------------------------|--------------|
| | 2011 | 2010 |
| Net cash used in operating activities | \$ (134,503) | \$ (675,131) |
| Net cash used in investing activities | - | (100,000) |
| Net cash provided by (used in) financing activities | 134,503 | (775,131) |
| Net increase in cash and cash equivalents | \$ - | \$ - |

As of September 30, 2011, we had working capital deficit (total current liabilities in excess of total current assets) of (\$3,310,744), an available cash balance of \$Nil, an accounts payable and accrued liabilities balance of \$990,696, notes payable and convertible notes payable of \$2,121,815, and other current liabilities of \$200,000.

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, 2010, which are included in our Annual Report on Form 10-K filed with the SEC. 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, 2011. 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, 2011.

Changes in internal controls

There were no changes in our internal controls over financial reporting that occurred during the quarter ended September 30, 2011 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, 2011, 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.

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ITEM 6. EXHIBITS.

- 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

- 101.INS XBRL Instance Document
- 101.SCH XBRL Schema Document
- 101.CAL XBRL Calculation Linkbase Document
- 101.DEF XBRL Definition Linkbase Document
- 101.LAB XBRL Label Linkbase Document
- 101.PRE XBRL Presentation Linkbase Document

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.

SEAWRIGHT HOLDINGS, INC.

Date: January 20, 2012

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