

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 x No o

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

Yes o No 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 o No 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
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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
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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
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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		
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)
		(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	