SEAWRIGHT HOLDINGS INC
Form 10-Q
October 07, 2011

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

FORM 10-Q
(Mark One)

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2010

¨ 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 x`

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 o No x

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 o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

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

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 September 20, 2011
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, 2010 (unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$580	$580
Capitalized financing costs	21,926	5,759
Total current assets	22,506	6,339
Property and equipment, net	1,237,211	1,248,284
Other assets	30,214	30,214
Total assets	$1,289,931	$1,284,837
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued expenses	$597,846	$936,192
Line of credit	-	700,427
Convertible notes payable, net of debt discount	480,000	40,000
Notes payable, net of discount, current portion	1,091,906	1,193,606
Notes payable due to related payable, current portion	55,000	-
Other liabilities	50,000	47,360
Total current liabilities	2,274,752	2,917,585
Long-term liabilities:		
Note payable, long term portion	750,000	-
Note payable due to related party, long term portion	125,000	-
Total liabilities	3,149,752	2,917,585
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, 2010 and December 31, 2009	-	-
Common stock, par value $0.001 per share; 19,900,000 shares authorized; 13,598,399 shares issued and outstanding as of September 30, 2010 and December 31, 2009	13,598	13,598
Common shares to be issued	36,896	36,896
Additional paid in capital	7,041,629	6,948,998

Accumulated deficit during development stage	(8,951,944)	(8,632,240)
Total stockholders' deficit	(1,859,821)	(1,632,748)
Total liabilities and stockholders' deficit	$1,289,931	$1,284,837

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, 2010
	2010	2009	2010	2009	
Revenue, net	$-	$-	$-	$-	$19,611
Cost and expenses:					
Selling, general and administrative	88,602	57,476	390,807	370,189	6,349,852
Impairment loss on trade name	-	-	-	-	19,529
Gain on sale of trading securities	-	-	-	-	(37,356)
Depreciation and amortization	3,691	3,691	11,073	11,073	75,795
	92,293	61,167	401,880	381,262	6,407,820
Operating loss	(92,293)	(61,167)	(401,880)	(381,262)	(6,388,209)
Other income (expense):					
Other income	-	-	-	-	62,302
Gain on sale of property	-	-	-	-	1,480,996
Gain on settlement of debt	-	-	606,058	-	1,413,161
Interest expense, net	(113,149)	(148,994)	(523,882)	(407,151)	(5,512,095)
Total other income (expense)	(113,149)	(148,994)	82,176	(407,151)	(2,555,636)
Loss from continuing operations before income taxes and discontinued operations	(205,442)	(210,161)	(319,704)	(788,413)	(8,943,845)
Provision for income taxes	-	-	-	-	-
Loss from continuing operations before discontinued operations	(205,442)	(210,161)	(319,704)	(788,413)	(8,943,845)
Income from discontinued operations	-	-	-	-	16,901
Net loss	(205,442)	(210,161)	(319,704)	(788,413)	(8,926,944)

Preferred stock dividend	-	-	-	-	(25,000)
Net loss attributable to common shareholders	$(205,442)	$(210,161)	$(319,704)	$(788,413)	$(8,951,944)
Loss per common share, basic and fully diluted	$(0.02)	$(0.02)	$(0.02)	$(0.06)	
Weighted average number of common shares outstanding, basic and fully diluted	13,598,399	13,598,399	13,598,399	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,
	2010	2009	2010
Net cash used in operating activities	(675,131)	(150,467)	(6,175,012)
Net cash (used in) provided by investing activities	(100,000)	-	1,229,622
Net cash provided by financing activities	775,131	150,467	4,945,970
Net increase in cash and cash equivalents	-	-	580
Cash and cash equivalents, beginning of period	580	580	-
Cash and cash equivalents, end of period	$580	$580	$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	$-	$-	$701,552
Common stock issued in exchange for convertible notes payable	$-	$-	$1,447,104
Common stock to be issued in exchange for convertible notes payable	$-	$-	$11,396
Common stock to be 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	$-	$-	$1,200,000
Warrants issued in exchange for financing costs	$-	$-	$545,460
Notes payable and accrued interest settled by officer	$105,000	$-	$105,000

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

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SEAWRIGHT HOLDINGS, INC.
(a development stage company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(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 periods ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. The unaudited condensed financial statements should be read in conjunction with the December 31, 2009 financial statements and footnotes thereto included in the Company's SEC Form 10 K.

The condensed consolidated financial statements as of December 31, 2009 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, 2010, the Company has accumulated losses of $8,951,944.

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 a have a material impact on the Company's consolidated financial position, results of operations or cash flows.

NOTE 2 – GOING CONCERN MATTERS

The accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying unaudited condensed consolidated financial statements during nine months ended September 30, 2010, the Company incurred a net loss of $319,704, had accumulated deficit since its inception from October 14, 1999 through September 30, 2010 of $8,951,944 and used $6,175,012 in cash for operating activities from its inception through September 30, 2010. 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.

SEAWRIGHT HOLDINGS, INC.
(a development stage company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(UNAUDITED)

NOTE 3 - PROPERTY AND EQUIPMENT (continued)

Major classes of property and equipment at September 30, 2010 and December 31, 2009 consisted of the following:

	September 30, 2010	December 31, 2009
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	(56,263)	(45,190)
	$ 1,237,211	$ 1,248,284

Depreciation expense was $3,691 for the three month periods ended September 30, 2010 and 2009 and $11,073 for the nine months ended September 30, 2010 and 2009.

NOTE 4 – LAND PURCHASE OPTION

On March 25, 2010, the Company's wholly-owned subsidiary, Knox Minerals, LLC ("Knox Minerals"), entered into a Real Estate Purchase Option (the "2010 Option") with James R. Golden and John C. Slusher (the "Option Holders"), under which Knox Minerals agreed pay the Option Holders $100,000 for an option to purchase the oil and gas (including coal bed methane) rights under certain land owned by the Option Holders in Knox County, Kentucky (the "Knox Land") for an aggregate price of $1,575,000. The option period was 120 days, except that Knox Minerals had the right to extend the closing date for four additional 30 day periods upon payment of $25,000 for each period. Next Generation Media Corp., n/k/a Next Generation Energy Corp. ("NGEC"), loaned the Company $125,000, of which $100,000 used by Knox Minerals to make the initial option payment to the Option Holders and the remaining $25,000 was used to pay a brokerage commission due to a broker who arranged the 2010 Option. NGEC's loan is evidenced by a promissory note dated March 25, 2010 in the principal amount of $125,000 that is payable in full with interest at 6% per annum twenty-four months after the date of the note.

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

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

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

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SEAWRIGHT HOLDINGS, INC.
(a development stage company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(UNAUDITED)

NOTE 5 - NOTES PAYABLE

Notes payable at September 30, 2010 and December 31, 2009 are as follows:

	September 30, 2010	December 31, 2009
15% per annum note payable, monthly interest payments, principal due June 8, 2008, collateralized by land. $645,000 of this note was settled and paid upon sale of real estate property in July 2008. The remaining principal of $283,000 was in default under the terms of the note agreement at December 31, 2009. The note and unpaid accrued interest was settled in May 2010 with a new principal of $375,000, interest at 21% per annum. Net of unamortized discount of $19,304 at September 30, 2010. (1)	$ 355,696	$ 283,000
24% per annum (default rate 30%) note payable, due September 19, 2008, collateralized by common stock of principle stockholder. The Company was in default under the terms of the note agreement prior to repayment and at December 31, 2009. The note was repaid in full in May 2010. (1)	-	135,000
7% per annum note payable, due on or before July 1, 2008, uncollateralized. This note was partially paid during the year ended December 31, 2008, with the remaining principal in default under the terms of the note agreement at December 31, 2009. 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, 2010, the adjusted principal amount is $174,000. (2)	174,000	187,530
6% per annum note payable due to related party, due March 25,2012, uncollateralized (3)	125,000	-
12% per annum (default rate 18%) note payable, due November 1, 2011, collateralized by land (5)	750,000	-
Noninterest bearing notes payable due to related party, due on demand, uncollateralized (3)	47,500	-
15% per annum (default rate 21%) note payable, due October 13, 2008, collateralized by land; The Company was in default under the terms of the note agreement at December 31, 2009. Net of discount of $18,365 at September 30, 2010.	356,635	375,000

(4)