

SEAWRIGHT HOLDINGS INC
Form 10KSB/A
June 19, 2006

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

FORM 10-KSB/A

Amendment No. 1

(Mark One)

Annual report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2005

Transition report pursuant to 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.
(Name of Small Business Issuer in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

600 Cameron Street, Alexandria Virginia
(Address of Principal Executive Offices)

22314
(Zip Code)

(703) 340-1629
(Issuer's telephone number, including Area Code)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: None

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

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

Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. Yes No

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

State issuer's revenues for its most recent fiscal year: \$2,524.

The trading price of the registrant's stock on the OTC Bulletin Board on March 17, 2006 was \$0.51/share bid price and \$0.60/share ask price. The average bid and ask price was \$0.55/share. Based on this \$0.55 value, the aggregate market value of common stock owned by non-affiliates of the registrant was approximately \$1,927,682, calculated on the basis of 3,504,876 shares of common stock owned by non-affiliates.

As of March 31, 2006, the total number of issued and outstanding shares of the issuer's common stock, par value \$0.001, was 8,875,476.

Transitional Small Business Disclosure Format: Yes o No x

Explanatory Note

This Amendment No. 1 on Form 10-KSB/A amends and restates Part II, Items 6, 7 and 8A to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005, as initially filed with the Securities and Exchange Commission on April 17, 2006. We have made the following changes to our Annual Report:

- We have changed our accounting treatment of puts issued under a termination agreement (see Note H of the Financial Statements). We have restated our Financial Statements (Part II, Item 7) and our Managements Discussion and Analysis or Plan of Operation (Part II, Item 6) to reflect this change.

- We have restated Item 8A, Controls and Procedures.

Unless otherwise noted, this Amendment No. 1 on Form 10-KSB/A does not reflect events occurring after our filing of the Form 10-KSB on April 17, 2006. Information not affected by the adjustments noted above is unchanged and reflects the disclosures made at the time of the original filing of our Form 10-KSB on April 17, 2006. Accordingly, this Form 10-KSB/A should be read in conjunction with our filings made with the SEC subsequent to the filing of our original Form 10-KSB, including any amendments to those filings.

This Amendment No. 1 on Form 10-KSB/A also contains updated certifications from our principal executive officer and principal financial officer, as required by Section 302 and 906 of the Sarbanes-Oxley Act of 2002.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION OR PLAN OF OPERATION.

As defined under Part I, under Forward-Looking 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 a variety of 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 its 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. In December 2004, we entered into agreements to acquire two parcels of land located approximately 10 miles south of the Mt. Sidney property and have consummated one of those agreements. We are considering leasing these properties for commercial purposes. See "Description of Property" above.

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.

The further development of this business will require, among other things, further capital expenditure 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 December 31, 2005, 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 April 30, 2006.

Number of Employees

As of December 31, 2005, we had one employee, our chief executive officer and president, Joel Sens. We anticipate that the number of employees may 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 December 31, 2005, but we may enter into an employment contract with him within the next twelve months.

Comparison of Financial Results

Years Ended December 31, 2005 and 2004

Revenues

During the year ended December 31, 2005, we generated \$2,524 in revenues from continuing operations. Prior to 2005, the Company had generated no revenue from continuing operations.

Costs and Expenses

From our inception through December 31, 2005, we have incurred losses of \$2,014,185. 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, and the preparation of our registration statement.

We incurred operating expenses of \$946,457 during the year ended December 31, 2005 as compared to \$198,506 of expenses in during the year ended December 31, 2004. Expenses for the year ended December 31, 2005 are composed principally of salary, legal and accounting fees, financing expense on our funding instruments, and consulting fees associated with the acquisition of land. Our other expenses increased by \$39,172 from 2004 to 2005 primarily due to interest expense attributable to our private placement, offset by a gain on extinguishment of debt and fair value adjustment for a put agreement.

During the year ended December 31, 2005, we incurred a net loss of \$54,592 from our trading of marketable securities. During the year ended December 31, 2004, we recorded net gain of \$93,518.

Liquidity and Capital Resources

As of December 31, 2005, we had a working capital deficit of \$225,378, an available cash balance of \$130,857, a marketable securities balance of \$138,910 and an accounts payable and accrued liabilities balance, including accrued interest on the notes, of approximately \$120,000.

As a result of our operating losses from our inception through December 31, 2005, we have generated a cash flow deficit of \$1,828,522 from operating activities.

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-KSB, 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.

Private Placement

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, 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.

We sold 984 units in 2004. In January 2005, we received \$45,000 for an additional 15 units subscribed. With respect to these 15 units, we issued to the investors convertible promissory notes in an aggregate amount of \$22,500, 37,500 shares of our common stock, valued at \$25,188, and 15 warrants.

On January 31, 2005, we notified Jones, Byrd and Attkisson, the placement agent, that we would no longer accept any further investment in our private placement. Over the course of our private placement, we received total proceeds of \$2,665,116, net of placement costs and fees, and issued to the 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.

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 under the purchase agreements for the Staunton, Virginia properties and to fund improvements to our spring site and our initial operations.

We intend to generate these funds from our equity line of credit and to enter into a bank loan to finance the acquisition of the 33.52 acre Staunton property. We believe that proceeds from the equity line of credit and the financing of the Staunton property 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 herein 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 December 31, 2005, 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.

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and judgments that affect our reported assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities. We base our estimates and judgments on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Future events, however, may differ markedly from our current expectations and assumptions. While there are a number of significant accounting policies affecting our consolidated financial statements; we believe the following critical accounting policies involve the most complex, difficult and subjective estimates and judgments:

stock-based compensation; and
revenue recognition.

Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148 - Accounting for Stock-Based Compensation - Transition and Disclosure. This statement amends SFAS No. 123 - Accounting for Stock- Based Compensation, providing alternative methods of voluntarily transitioning to the fair market value based method of accounting for stock based employee compensation. FAS 148 also requires disclosure of the method used to account for stock-based employee compensation and the effect of the method in both the annual and interim financial statements. The provisions of this statement related to transition methods are effective for fiscal years ending after December 15, 2002, while provisions related to disclosure requirements are effective in financial reports for interim periods beginning after December 31, 2002.

In December 2004, the FASB published Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-Based Payment (SFAS 123R). SFAS 123R requires that compensation cost related to share-based payment transactions be recognized in the financial statements. Share-based payment transactions within the scope of SFAS 123R include stock options, restricted stock plans, performance-based awards, stock appreciation rights, and employee share purchase plans. The provisions of SFAS 123R are effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005.

Currently, we account for our share-based payment transactions under the provisions of APB 25, which does not necessarily require the recognition of compensation cost in the financial statements. We are assessing the implications of this revised standard, which may materially impact the Company's results of operations during 2006 and thereafter.

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 our 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. We defer any revenue for which the product has not been delivered or is subject to refund until such time that the customer and we 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. The effect of implementing EITF 00-21 on the Company's consolidated financial position and results of operations was not significant.

Recent Accounting Pronouncements

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143," which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. The Company is required to adopt the provisions of FIN 47 no later than the first quarter of fiscal 2006. The Company does not expect the adoption of this Interpretation to have a material impact on its consolidated financial position, results of operations or cash flows.

In May 2005, the FASB issued *Statement of Financial Accounting Standards No. 154, Accounting Changes and Error Corrections (SFAS 154)*, which requires retrospective application of all comparative financial statements for "voluntary" accounting principle changes. This statement, however, does not apply to changes in principle due to new accounting pronouncements when the new pronouncement includes specific transition provisions. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this standard is currently not expected to have a material impact on the Company's consolidated results of operations and financial position in the foreseeable future.

On November 3, 2005, the FASB issued *FASB Staff Position on SFAS 115 and 124, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments (FSP FAS 115-1 and 124-1)*. This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. It is effective for reporting periods beginning after December 15, 2005. Accordingly, the Company is reviewing its processes and will adopt the required accounting and disclosures.

On February 16, 2006 the FASB issued SFAS 155, "Accounting for Certain Hybrid Instruments," which amends SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. This statement is effective for all financial instruments acquired or issued in 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.

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

We may experience significant growth, which would result in increased responsibilities for management and the need for additional employees. We believe that our ability to attract, train, and retain qualified technical, sales, marketing and management personnel will be a critical factor to our future success.

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 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.

For example, in June 2005, we acquired certain trademarks and other intellectual property, including bottle designs and labeling as well as formulas for flavored sparkling water and teas. We expect that this acquisition will assist us in establishing and growing market share in the bottled water and tea market. However, if we are not able to successfully integrate these acquired assets into our business by selling more of our products and increasing our market share, we may not experience a return on investment commensurate with the acquisition cost.

ITEM 7. FINANCIAL STATEMENTS.

Financial statements as of and for the year ended December 31, 2005, and for the year ended December 31, 2004 are presented in a separate section commencing on page F-1.

ITEM 8A. CONTROLS AND PROCEDURES.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and regulations, and that such information is accumulated and communicated to our management, including Joel Sens, our chief executive officer and treasurer, as appropriate to allow timely decisions regarding the required disclosures. Any system of controls can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. In addition, the design of any control system is based on certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goal under all potential future conditions.

On April 17, 2006, in filing our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005 (the "Original 10-KSB") and a Current Report on Form 8-K (the "Original 8-K"), we announced that we had concluded that our previously issued financial statements for the year ended December 31, 2004 should no longer be relied upon, and restated those financial statements. On June 12, 2006, due to certain errors in the financial statements in the Original 10-KSB, we announced, in an amendment to the Form 8-K (the Original 8-K, as so amended, the "Amended 8-K"), that the financial statements included in the Original 10-KSB should no longer be relied upon. Those financial statements have been restated as of the date hereof in this amendment to the previously-filed Form 10-KSB (the Original 10-KSB, as so amended, the "Amended 10-KSB"). In addition, in the Amended 8-K, we acknowledged that there were errors in our financial statements related to our Quarterly Reports on Form 10-QSB for the fiscal quarters ended March 31, 2005, June 30, 2005 and September 30, 2005, but determined that these errors did not affect those financial statements in such a material way as to require amending those quarterly reports.

The restatements changed, and the other error corrections will change, the accounting treatment afforded to our August 2004 private placement, the termination agreement (sometimes referred to as the put agreement) entered into with a shareholder in October 2004, our overpayment of amounts owed to a shareholder, and our proceeds from the sale of trading securities, and are further described in Note Q to our Consolidated Financial Statements for the years ended December 31, 2005 and 2004, as contained in this Amended 10-KSB, as well the Amended 8-K.

Our chief executive officer and treasurer (our principal financial officer) has evaluated, as of December 31, 2005, the effectiveness of the design, maintenance and operation of the Company's disclosure controls and procedures. Based on that evaluation, and as a result of the weaknesses that resulted in the restatements and other expected changes described above, our chief executive officer and treasurer has determined that our disclosure controls and procedures were not effective, at a reasonable assurance level, 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. Notwithstanding those weaknesses, we believe that our Consolidated Financial Statements for the years ended December 31, 2005 and 2004, as contained in the Amended 10-KSB, fairly present, in all material respects, our financial position, results of operations and cash flows for all periods presented therein.

During the quarter ended December 31, 2005, there were no changes in internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, except as follows.

Our management is in the process of identifying deficiencies with respect to our disclosure controls and procedures and implementing corrective measures, which includes the establishment of new internal policies related to financial reporting.

Our chief executive officer and treasurer also conducted an evaluation of the Company's internal controls over financial reporting to determine whether any changes occurred during the fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. During the preparation of the Company's financial statements as of and for the year ended December 31, 2005, the Company identified the internal control weaknesses identified below. As a result of this conclusion, the Company has initiated the changes in internal control, to the extent possible given limitations in financial and manpower resources, also described below.

The Company became aware of its staffing needs and took steps to address its understaffed Finance and Accounting team to correct this material weakness. The Company engaged a professional services firm with extensive CFO-level management and SEC reporting experience in public companies. The Company feels this addition to the Company's Finance and Accounting team will improve the quality of future period financial reporting. Management identified a material weakness based on the Company's delay in closing its books. To correct this material weakness, checklists will be developed delineating tasks, preparation responsibilities, and review responsibilities targeting specific completion dates. The checklist will provide evidentiary support of work performed and reviewed. Specific checklists will be developed for non-quarter end months, quarter end months, and the annual close. These checklists have been developed and will be implemented in the 2nd quarter 2006 close process and utilized in the preparation of the 2nd quarter 2006 Form 10-QSB and subsequent period ends.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: June 15, 2006

Seawright Holdings,
Inc.
a Delaware
Corporation

By: /s/ Joel Sens

Joel Sens
Title: Chief
Executive Officer

In accordance with the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: June 15, 2006

By: /s/ Joel Sens

Joel Sens
Title: Chief
Executive Officer,
President, Treasurer
(principal financial
and
accounting officer)
and
Director

Date: June 15, 2006

By: /s/ Ronald L.
Attkisson

Ronald L. Attkisson
Title: Director

Date: June 15, 2006

By: /s/ Jeffrey Sens

Jeffrey Sens
Title: Director

CONSOLIDATED FINANCIAL STATEMENTS

***YEARS ENDED
DECEMBER 31, 2005 AND 2004***

SEAWRIGHT HOLDINGS, INC.

F-1

SEAWRIGHT HOLDINGS, INC.

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RUSSELL BEDFORD STEFANOUE MIRCHANDANI , LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

Board of Directors
Seawright Holdings, Inc.
Alexandria, VA

We have audited the accompanying consolidated balance sheets of Seawright Holdings Inc. and subsidiary, a development stage company, (the "Company") as of December 31, 2005 and 2004 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2005 and for the period from October 14, 1999 (date of inception) to December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Seawright Holdings Inc. and subsidiary as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2005, and for the period October 14, 1999 (date of inception) to December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the consolidated financial statements, the Company has incurred net losses since its inception. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to this matter are described in Note P. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note Q to the consolidated financial statements, the Company restated the balance sheet as of December 31, 2005 and 2004 and the related consolidated statements of operations, cash flows and stockholders' equity for the years then ended.

/s/ RUSSELL BEDFORD STEFANOUE MIRCHANDANI LLP

Russell Bedford Stefanou Mirchandani LLP
Certified Public Accountants

McLean, Virginia
March 24, 2006, except
Note Q, as to which date

is June 5, 2006

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SEAWRIGHT HOLDINGS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2005 AND 2004

| | (As restated - Note Q) | |
|--------------------------------|------------------------|---------------------|
| | 2005 | 2004 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 130,857 | \$ 190,419 |
| Marketable securities | 138,910 | 1,556,405 |
| Deposits | 125,300 | 65,700 |
| Total current assets | 395,067 | 1,812,524 |
| Property and equipment - net | 1,775,669 | 1,013,955 |
| Deferred financing costs - net | 507,247 | 649,035 |
| Intangible asset | 35,156 | - |
| Total assets | \$ 2,713,139 | \$ 3,475,514 |
| | | |
| | | |
| | | |

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

SEAWRIGHT HOLDINGS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2005 AND 2004

| LIABILITIES AND STOCKHOLDERS' EQUITY | As restated - Note Q | |
|---|----------------------|---------------------|
| | 2005 | 2004 |
| Current liabilities: | | |
| Accrued expenses | \$ 120,445 | \$ 75,273 |
| Accrued put agreement | - | 158,752 |
| Note payable, current portion | 500,000 | - |
| Total current liabilities | 620,445 | 234,025 |
| Long-term liabilities | | |
| Note payable - long-term portion | - | 400,000 |
| Convertible notes payable, net of debt discount | 1,077,944 | 954,777 |
| Other long-term liabilities | 30,683 | - |
| Total liabilities | 1,729,072 | 1,588,802 |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, par value \$.001 per share; 100,000 shares authorized. | | |
| Series A convertible preferred stock, par value \$.001 per share; 60,000 authorized. | | |
| Common stock, par value \$.001 per share; 19,900,000 shares authorized; 8,875,476 and 8,782,978 shares issued and outstanding at December 31, 2005 and 2004, respectively. | 8,876 | 8,783 |
| Additional paid-in-capital | 3,014,376 | 2,775,485 |
| Preferred stock dividend | (25,000) | (25,000) |
| Common stock subscription | - | 25,581 |
| Accumulated deficit during development stage | (2,014,185) | (898,137) |
| Total stockholders' equity | 984,067 | 1,886,712 |
| Total liabilities and stockholders' equity | \$ 2,713,139 | \$ 3,475,514 |

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

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

| | (As restated - Note Q) | | For the period from October 14, 1999 (date of inception) through December 31, 2005 |
|--|------------------------|--------------|---|
| | 2005 | 2004 | |
| Sales | \$ 2,524 | \$ - | \$ 2,524 |
| Costs and expenses: | | | |
| Selling, general and administrative | 885,327 | 291,607 | 2,492,843 |
| (Gain) loss on trading securities | 54,592 | (93,518) | (38,926) |
| Depreciation and amortization | 6,538 | 417 | 6,955 |
| | 946,457 | 198,506 | 2,460,872 |
| Operating loss | (943,933) | (198,506) | (2,458,348) |
| Other income (expense): | | | |
| Other income | 1,000 | 60,948 | 61,948 |
| Gain (loss) on fair value adjustment for put agreement | 68,752 | (68,752) | - |
| Gain on extinguishment of debt | 60,000 | - | 807,103 |
| Interest expense | (301,867) | (125,139) | (441,789) |
| Total other income (expense) | (172,115) | (132,943) | 427,262 |
| Loss from continuing operations before income taxes and discontinued operations | (1,116,048) | (331,449) | (2,031,086) |
| Provision for income tax | - | - | - |
| Loss from continuing operations before discontinued operations | (1,116,048) | (331,449) | (2,031,086) |
| Income from discontinued operations | - | - | 16,901 |
| Net loss | (1,116,048) | (331,449) | (2,014,185) |
| Preferred stock dividend | - | (25,000) | (25,000) |
| Net loss attributable to common shareholders | \$ (1,116,048) | \$ (356,449) | \$ (2,039,185) |
| Losses per common share | | | |
| Continuing operations | | | |
| Basic | \$ (0.13) | \$ (0.06) | |
| Assuming dilution | \$ (0.13) | \$ (0.06) | |
| Weighted average common shares outstanding | 8,874,462 | 6,363,095 | |

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

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SEAWRIGHT HOLDINGS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF (DEFICIENCY IN) SHAREHOLDERS' EQUITY
FOR THE PERIOD OCTOBER 14, 1999 (DATE OF INCEPTION) TO DECEMBER 31, 2005

| | Preferred Preferred Shares | 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, 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) |

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SEAWRIGHT HOLDINGS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF (DEFICIENCY IN) SHAREHOLDERS' EQUITY (CONTINUED)
FOR THE PERIOD OCTOBER 14, 1999 (DATE OF INCEPTION) TO DECEMBER 31, 2005

| | Preferred Preferred Shares | Preferred Stock Amount | Common 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, 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 |
| 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 |

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| | | | | | | | | | |
|--|----------|------|--------------|-------|--------------|--------|------------|-------------|-----------|
| 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 | - | - | - | - | - | - | - | (331,449) | (331,449) |
| Balance at December 31, 2004 (As restated, See Note Q) | - \$ | - | 8,782,978 \$ | 8,783 | 2,775,485 \$ | 25,581 | (25,000)\$ | (898,137)\$ | 1,886,712 |

SEAWRIGHT HOLDINGS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF (DEFICIENCY IN) SHAREHOLDERS' EQUITY (CONTINUED)
FOR THE PERIOD OCTOBER 14, 1999 (DATE OF INCEPTION) TO DECEMBER 31, 2005

| | Preferred Stock Shares | Preferred Stock Amount | Common Stock 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 Beneficial conversion feature of convertible debentures | - | - | - | - | (13) | - | - | - | (13) |
| Value of warrants attached to convertible debentures | - | - | - | - | 5,708 | - | - | - | 5,708 |
| Contributed capital | - | - | - | - | 3,020 | - | - | - | 3,020 |
| Expiration of put agreement | - | - | - | - | 89,500 | - | - | - | 89,500 |
| Net loss | - | - | - | - | 90,000 | - | - | (1,116,048) | (1,116,048) |
| Balance at December 31, 2005 (As | - | \$ - | 8,875,476 | \$ 8,876 | \$ 3,014,376 | \$ - | \$ (25,000) | \$ (2,014,185) | \$ 984,067 |

**restated,
see Note Q)**

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

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

| | (As restated -Note Q) | | For the period from October 14, 1999 (date of inception) through December 31, 2005 |
|---|----------------------------------|--------------|---|
| | For the years ended December 31, | | |
| | 2005 | 2004 | |
| Net loss | \$ (1,116,048) | \$ (331,449) | \$ (2,014,185) |
| Income from discontinued operations | - | - | (16,901) |
| | (1,116,048) | (331,449) | (2,031,086) |
| Adjustments to reconcile to net cash from operating activities: | | | |
| Depreciation and amortization | 6,538 | 417 | 6,955 |
| Amortization of debt discount | 112,083 | 27,775 | 139,858 |
| Amortization of deferred financing costs | 141,788 | 52,410 | 194,198 |
| Extinguishment of debt | (60,000) | - | (807,103) |
| Fair valuation adjustment - put agreement | (68,752) | 68,752 | - |
| Accretion of interest on tradename liability | 1,621 | - | 1,621 |
| Financing expense attributed to conversion of stock options to common stock | - | 1,500 | 1,500 |
| Common stock issued to founders | - | - | 5,020 |
| Common stock issued in exchange for services rendered | - | - | 45,000 |
| Stock options issued in exchange for services rendered | - | - | 5,276 |
| Write-off of claimed receivable - discontinued operations | - | 6,000 | 6,000 |
| Change in: | | | |
| Marketable securities - trading | 1,417,495 | (1,556,405) | (138,910) |
| Claims receivable | - | - | (6,000) |
| Deposits | (59,600) | (65,700) | (125,300) |
| Purchase of intangible | (10,000) | - | (10,000) |
| Cash disbursed in excess of available funds | - | (24,688) | - |
| Accrued expenses | 45,172 | (73,274) | 867,548 |
| Net cash provided by (used in) continuing operating activities | 410,297 | (1,894,662) | (1,845,423) |
| Net cash provided by discontinued operating activities | - | - | 16,901 |

| | | | |
|------------------------------------|---------|-------------|-------------|
| Net cash from operating activities | 410,297 | (1,894,662) | (1,828,522) |
|------------------------------------|---------|-------------|-------------|

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

| | (As restated - Note Q) | | |
|--|----------------------------------|------------|--|
| | For the years ended December 31, | | For the period from October 14, 1999 (date of inception) through December 31, 2005 |
| | 2005 | 2004 | |
| Cash flows from investing activities | | | |
| Capital expenditures | (264,346) | (7,592) | (578,718) |
| Net cash from investing activities | (264,346) | (7,592) | (578,718) |
| Cash flows from financing activities | | | |
| Proceeds from issuance of common stock and stock subscription - net of costs and fees | | | |
| | 25,188 | 1,540,977 | 1,566,165 |
| Nonreciprocal (transfer to) receipt from shareholder | 89,487 | (144,006) | (54,519) |
| Proceeds from issuance of capital notes - net | - | - | 139,000 |
| Proceeds from issuance of convertible notes - net | 16,792 | 1,065,794 | 1,082,586 |
| Proceeds from issuance of warrants attached to convertible notes - net | 3,020 | 166,845 | 169,865 |
| Repayments of notes payable | (340,000) | (415,000) | (640,000) |
| Proceeds from issuance of preferred stock - net | - | - | 275,000 |
| Repayments of shareholder advances | - | (121,937) | - |
| Net cash from financing activities | (205,513) | 2,092,673 | 2,538,097 |
| Net increase (decrease) in cash and cash equivalents | \$ (59,562) | \$ 190,419 | \$ 130,857 |
| Cash and cash equivalents - beginning of period | 190,419 | - | - |
| Cash and cash equivalents - end of period | \$ 130,857 | \$ 190,419 | \$ 130,857 |
| Supplemental Disclosures of Cash Flow Information | | | |
| Cash paid for interest | \$ 191,130 | \$ 49,487 | \$ 240,617 |
| Cash paid for income taxes | \$ - | \$ - | \$ - |
| Notes payable issued in connection with capital expenditures | \$ 500,000 | \$ 700,000 | \$ 1,200,000 |
| Warrants issued in exchange for financing costs | \$ - | \$ 545,460 | \$ 545,460 |

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

Notes to Consolidated Financial Statements
Years Ended December 31, 2005 and 2004

NOTE A-SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows.

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 *Statement of Financial Accounting Standards No. 7 (SFAS 7)* 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 December 31, 2005, the Company has accumulated losses of \$2,014,185.

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.

DISCONTINUED OPERATIONS

As a result of the Company's acquisition of real property and improvements in October 2003 (see Note C), the Company restructured its operations to focus on the development of the spring water bottling and distribution business. This restructuring included the discontinuance of financing plaintiffs who are involved in personal injury claims. Accordingly, the Company's plaintiff's financing business segment is accounted for as a discontinued operation, and the amounts in the financial statements and related notes for all periods shown have been restated to reflect discontinued operations accounting. The Company has not allocated any previously incurred corporate overhead and selling, general and administrative expenses to the discontinued operation.

The financial statements reflect the operating results of the discontinued operations separately from continuing operations. Prior years have been restated. Operating results for the discontinued operations are reflected on the income statement and occurred during the period from inception, being October 14, 1999, through December 31, 2003.

REVENUE RECOGNITION

For revenue from product sales, the Company recognizes revenue in accordance with *Staff Accounting Bulletin No. 104, Revenue Recognition (SAB 104)*, which superseded *Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB 101)*. 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.

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SAB 104 incorporates *Emerging Issues Task Force 00-21, Multiple-Deliverable Revenue Arrangements (EITF 00-21)*. EITF 00-21 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. The effect of implementing EITF 00-21 on the Company's consolidated financial position and results of operations was not significant.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

The Company maintains a cash balance in a non-interest bearing account that may, at times, exceed federally insured limits. For the purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity date of three months or less to be cash equivalents.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference less any amount realized from disposition, is reflected in earnings. Minor additions and renewals are expensed in the year incurred. Major additions and renewals are capitalized and depreciated over their estimated useful lives being 5 years for equipment and 4 years for computers.

ADVERTISING

The Company follows the policy of charging the costs of advertising to expense as incurred. The Company did not incur advertising costs for the past two years.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company has adopted *Statement of Financial Accounting Standards No.144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144)*. The Statement requires that long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted undiscounted cash flows. Should an impairment in value be indicated, the carrying value of intangible assets will be adjusted, based on estimates of future discounted cash flows resulting from the use of and ultimate disposition of the intangible, to be reported at the lower of the carrying amount or the fair value less costs to sell.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, Disclosures About Fair Value of Financial Instruments (SFAS 107) requires disclosure of the fair value of certain financial instruments. The carrying value of cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings, as reflected in the balance sheets, approximate fair value because of the short-term maturity of these instruments.

STOCK BASED COMPENSATION

In December 2002, the Financial Accounting Standards Board (FASB) issued *Statement of Financial Accounting Standards No. 148, Accounting for stock-based Compensation- Transition and Disclosure- an amendment of SFAS 123 (SFAS 148)*. This statement amends *Standards of Financial Accounting Standards No.123, Accounting for Stock based Compensation (SFAS 123)* to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock based employee compensation. In addition, this statement amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial compensation and the effect of the method used on reported results. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in *APB Opinion No.25, Accounting for Stock Issued to Employees (APB 25)* and related interpretations. Accordingly, compensation expense for stock options is measured as the excess, if any, of the fair market value of the Company's stock at the date of the grant over the exercise price of the related option. The Company has adopted the annual disclosure provisions of SFAS 148 in its financial reports for the years ended December 31, 2005 and 2004 and has adopted the interim disclosure provisions in its financial reports for subsequent periods. Had compensation costs for the Company's stock options been determined based on the fair value at the grant dates for the awards, the Company's net loss and losses per share for 2005 and 2004 would not have been impacted as the Company would have reported no expense in its financial statements for those two years based on outstanding stock options.

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123R (revised 2004), "Share-Based Payment" which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation". Statement 123R supersedes APB opinion No. 25, "Accounting for Stock Issued to Employees", and amends FASB Statement No. 95, "Statement of Cash Flows". Generally, the approach in Statement 123R is similar to the approach described in Statement 123. However, Statement 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro-forma disclosure is no longer an alternative. On April 14, 2005, the SEC amended the effective date of the provisions of this statement. The effect of this amendment by the SEC is that the Company will have to comply with Statement 123R and use the Fair Value based method of accounting no later than the first quarter of 2006.

EARNING (LOSS) PER SHARE

Net earning (loss) per share is provided in accordance with *Statement of Financial Accounting Standards No. 128, Earnings per share (SFAS 128)*. Basic loss per share is computed by dividing losses available to common stockholders by the weighted average number of common shares and dilutive common stock equivalents outstanding during the period. Dilutive common stock equivalents consist of shares issuable upon conversion of convertible debentures and the exercise of the Company's stock options and warrants (calculated using the treasury stock method). During the year ended December 31, 2005 and 2004, common stock equivalents are not considered in the calculation of the weighted average number of common shares outstanding because they would be anti-dilutive, thereby decreasing the net loss per common share.

SEGMENT INFORMATION

The Company adopted *Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS 131)* in the year ended December 31, 1999. SFAS 131 establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS 131 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions regarding the allocation of resources and asset performance. The information disclosed herein materially represents all of the financial information related to the Company's principal operating segment.

INCOME TAXES

The Company follows *Statement of Financial Accounting Standards No. 109, Accounting for Income taxes (SFAS 109)* for recording the provision for income taxes. Deferred tax assets and liabilities are computed based upon the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rate applicable when the related asset or liability is expected to realized or settled. Deferred income tax expenses or benefits are based on the changes in the asset or liability during each period. If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized. Future changes in such valuation allowance are included in the provision for deferred income taxes in the period of change.

Deferred income taxes may arise from temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods. Deferred taxes are classified as current or non-current, depending on the classification of assets and liabilities to which they relate. Deferred taxes arising from temporary differences that are not related to an asset or liability are classified as current or non current depending on the periods in which the temporary differences are expected to reverse.

CONCENTRATIONS OF CREDIT RISK

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents and marketable securities. The Company places its cash and temporary cash investments with high credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit. Marketable securities are reviewed periodically by management who has established guidelines for the Company's investment portfolio. Marketable securities maintained by the Company are not FDIC insured.

LIQUIDITY

The Company is in the development stage and its efforts have been principally devoted to developing the spring water bottling and distribution business. To date, the Company has generated minimal revenues, has incurred expenses and has sustained losses. As shown in the accompanying consolidated financial statements, the Company has incurred accumulated losses of \$2,014,185 for the period from inception through December 31, 2005. The Company's current liabilities exceeded its current assets by \$225,378 as of December 31, 2005. Consequently, its operations are subject to all risks inherent in the establishment of a new business enterprise.

DEBT AND EQUITY SECURITIES

The Company follows the provisions of *Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115)*. The Company classifies debt and equity securities into one of three categories: held-to-maturity, available-for-sale or trading. These security classifications may be modified after acquisition only under certain specified conditions. Securities may be classified as held-to-maturity only if the Company has the positive intent and ability to hold them to maturity. Trading securities are defined as those bought and held principally for the purpose of selling them in the near term. All other securities must be classified as available-for-sale.

Held-to-maturity securities are measured at amortized cost in the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings or in a separate component of capital. They are merely disclosed in the notes to the consolidated financial statements.

Available-for-sale securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings but are reported as a net amount (less expected tax) in a separate component of capital until realized.

Trading securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses for trading securities are included in earnings.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses.

INTANGIBLES

In accordance with *Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142)*, indefinite-lived intangible assets are not amortized but are reviewed annually for impairment. Separable intangible assets that are not deemed to have an indefinite life are amortized over their useful lives and reviewed for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable.

The Company tests, for impairment, the tradename value reported on the consolidated balance sheet on the last day of the Company's year. The tradename impairment test under SFAS 142 requires a two-step approach, which is performed at the reporting unit level, as defined in SFAS 142. Step one identifies potential impairments by comparing the fair value of the reporting unit to its carrying amount. Step two, which is only performed if there is a potential impairment, compares the carrying amount of the reporting unit's tradename value to its implied value, as defined in SFAS 142. If the carrying amount of the reporting unit's tradename exceeds the implied fair value of the tradename, an impairment loss is recognized for an amount equal to that excess.

Financing costs associated with the Company's convertible promissory notes are deferred and amortized over the term of the loan.

NEW ACCOUNTING PRONOUNCEMENTS

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143," which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. The Company is required to adopt the provisions of FIN 47 no later than the first quarter of fiscal 2006. The Company does not expect the adoption of this Interpretation to have a material impact on its consolidated financial position, results of operations or cash flows.

In May 2005, the FASB issued *Statement of Financial Accounting Standards No. 154, Accounting Changes and Error Corrections (SFAS 154)*, which requires retrospective application of all comparative financial statements for "voluntary" accounting principle changes. This statement, however, does not apply to changes in principle due to new accounting pronouncements when the new pronouncement includes specific transition provisions. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this standard is currently not expected to have a material impact on the Company's consolidated results of operations and financial position in the foreseeable future.

On November 3, 2005, the FASB issued *FASB Staff Position on SFAS 115 and 124, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments (FSP FAS 115-1 and 124-1)*. This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. It is effective for reporting periods beginning after December 15, 2005. Accordingly, the Company is reviewing its processes and will adopt the required accounting and disclosures.

On February 16, 2006 the FASB issued SFAS 155, "Accounting for Certain Hybrid Instruments," which amends SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. This statement is effective for all financial instruments acquired or issued in 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.

RECLASSIFICATIONS

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

NOTE B - MARKETABLE SECURITIES

During the year ended December 31, 2005 and 2004, the Company classified all of its marketable securities as trading as the securities were bought and held principally for the purpose of selling them in the near term. The Company actively and frequently trades 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 December 31, 2005 and 2004, the Company's trading securities were carried at fair values of \$138,910 and \$1,556,405, respectively. Total realized loss amounted to \$54,592 while realized gain amounted to \$133,515 at December 31, 2005 and 2004, respectively. There were no unrealized holding gains or losses at December 31, 2005. Unrealized holding losses amounted to \$39,997 at December 31, 2004.

NOTE C - PROPERTY AND EQUIPMENT

In October, 2003, the Company acquired approximately 140 acres of land and related improvements in Augusta County, Virginia, in exchange for \$1,000,000, comprised of \$300,000 of cash and a \$700,000 promissory note payable. In June 2005, the Company purchased a parcel of land located approximately 10 miles south of the Augusta County, Virginia location. The purchased parcel is 33.52 acres which the Company acquired for \$725,000, comprised of \$225,000 of cash and a \$500,000 promissory note payable. The Company anticipates entering the sale of bulk spring water and retail bottling business utilizing the properties' water resources.

Major classes of property and equipment at December 31, 2005 and 2004 consist of the followings:

| | 2005 | 2004 |
|---------------------------------|--------------|--------------|
| Land | \$ 1,725,000 | \$ 1,000,000 |
| Equipment | 29,438 | 7,592 |
| Building improvements | 24,280 | 6,780 |
| | 1,778,718 | 1,014,372 |
| Less - accumulated depreciation | (3,049) | (417) |
| | \$ 1,775,669 | \$ 1,013,955 |

Depreciation expense was \$2,632 and \$417 for the years ended December 31, 2005 and 2004, respectively. The building improvements have not been placed in service as of December 31, 2005. Accordingly, depreciation has not been recorded on this asset group.

NOTE D - INTANGIBLES

INTANGIBLE ASSET

In June 2005, the Company purchased intellectual property including trademarks, service marks, trade dress, trade names, brand names, designs and logos as well as formulas for flavored sparkling waters and teas from a competitor. Under the terms of the agreement, the Company paid a purchase price of \$10,000 with royalties to be paid for the first 4,000,000 cases of bottled water or tea sold under the trademarks. As of the fifth anniversary of the effective date of the purchase, if the Company has not sold 4,000,000 cases of product under the trademark, the seller shall be entitled to a payment of \$50,000 less any royalties previously paid under the agreement. The royalty payable under this intangible has been recorded at its present value of \$30,683 at December 31, 2005 and is included in other long-term liabilities. The intangibles have been recorded at the carrying amount of \$39,063 net of the discount amortized and charged to interest expense in relation to these intangibles through December 31, 2005 of \$3,906. The intangible assets acquired will be amortized over a period of 5 years.

The Company has adopted SFAS No. 142, Goodwill and Other Intangible Assets, whereby the Company periodically tests its intangible assets for impairment. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets are tested for impairment, and write-downs will be included in results from operations.

Estimated amortization expense is as follows for years ending December 31:

| | | |
|------------|----|--------|
| 2006 | \$ | 7,812 |
| 2007 | | 7,812 |
| 2008 | | 7,812 |
| 2009 | | 7,812 |
| 2010 | | 3,908 |
| Thereafter | | - |
| Total | \$ | 35,156 |

DEFERRED FINANCING COSTS

Deferred financing costs associated with the Company's convertible notes payable are deferred and amortized over the life of the loan. Deferred financing costs consisted of the following at December 31:

| | 2005 | 2004 |
|---------------------------------|------------|------------|
| Deferred financing costs | \$ 701,445 | \$ 701,445 |
| Less - accumulated amortization | (194,198) | (52,410) |
| | \$ 507,247 | \$ 649,035 |

Amortization expense on deferred financing costs was \$141,788 and \$52,410 as of December 31, 2005 and 2004, respectively.

NOTE E - NOTES PAYABLE

Notes payable at December 31 consisted of the following:

| | 2005 | 2004 |
|---|------------|------------|
| Note payable, 8% interest, principal and outstanding interest due and payable in May 2006, collateralized by land. | \$ 500,000 | \$ - |
| Note payable, 6% interest payable every six months, principal due in full April 2008, personally guaranteed by the Company's President and principal shareholder. (a) | - | 400,000 |
| | 500,000 | 400,000 |
| Less - current portion | (500,000) | - |
| Notes payable - long-term | \$ - | \$ 400,000 |

(a) In February 2005, the Company paid in full the principal and all accrued interest of the note. Pursuant to the note agreement, the Company was granted a \$60,000 principal reduction discount when all principal and accrued interest are paid in full before the second anniversary of the note agreement. The Company has accounted for the \$60,000 principal reduction discount as other income during the year ended December 31, 2005.

NOTE F - 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 an 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 accrue interest at 11% per annum which is payable and due in September 2009. The note holders have 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.

At December 31, 2004, the Company had received proceeds of \$2,620,116, net of placement costs and fees of \$331,884, for 984 units subscribed. Pursuant to the terms of the Private Placement Memorandum, the Company issued to the investors Convertible Notes in an aggregate of \$1,476,000. The Company is obligated to issue 2,460,000 shares of its common stock, valued at \$1,387,477, to the investors in connection with the private placement. An aggregate of 2,404,978 shares were issued to the investors at December 31, 2004, and the Company has accounted for the remaining 54,998 shares not issued at December 31, 2004 as common stock subscription payable in the amount of \$25,581 (fractional shares of 24 shares of common stock will not be issued). The 54,998 shares of common stock were issued to the investors in January 2005. The Company also issued to investors an aggregate of 984 warrants as of December 31, 2004.

In January 2005, the Company received additional proceeds of \$45,000 for an additional 15 units subscribed. Pursuant to the terms of the Private Placement Memorandum, the Company issued to the investors Convertible Notes in an aggregate of \$22,500. The Company also issued an aggregate of 37,500 shares of its common stock, valued at \$25,188 to the investors in connection with the private placement. Additionally, the Company issued to investors an aggregate of 15 warrants in January 2005.

A summary of convertible promissory notes payable at December 31 are as follows:

| | 2005 | 2004 |
|--|--------------|--------------|
| Convertible notes payable (Convertible Notes), 11% per annum, maturity of 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 | \$ 1,498,500 | \$ 1,476,000 |
| Debt discount - note, net of accumulated amortization of \$69,929 and \$13,887 at December 31, 2005 and 2004, respectively. | (210,278) | (260,612) |
| Debt discount - beneficial conversion feature - note, net of accumulated amortization of \$69,929 and \$13,888 at December 31, 2005 and 2004, respectively. | (210,278) | (260,611) |
| | 1,077,944 | 954,777 |
| Less - current portion | - | - |
| Total | \$ 1,077,944 | \$ 954,777 |

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. The Company recognized a discount to the notes in the amount of \$5,708 and \$274,499 during the years ended December 31, 2005 and 2004, respectively. The note discount is being amortized over the maturity period of the notes, being five years. The Company recognized an imbedded beneficial conversion feature present in the Convertible Notes and allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. As of December 31, 2005 and 2004, the Company recognized \$5,708 and \$274,499, respectively, 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 4,500 and 295,200 shares of the Company's common stock at \$0.85 per share as of December 31, 2005 and 2004, respectively. The warrants expire five years from their issuance. 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 recognized the value attributable to the warrants in the amount of \$3,020 and \$187,123 to additional paid-in capital during the years ended December 31, 2005 and 2004, respectively. 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' debt discount and the debt discount attributed to the beneficial conversion feature and recorded non-cash interest expense of \$112,083 and \$27,775 for the years ended December 31, 2005 and 2004, respectively.

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 \$31,197 and \$12,999 for the years ended December 31, 2005 and 2004, respectively, in relation to the deferred financing costs.

NOTE G - 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 December 31, 2005 and 2004, the Company does not have any shares of Series A Convertible Preferred Stock issued and outstanding. The Company has authorized 19,900,000 shares of common stock, with a par value of \$.001 per share. As of December 31, 2005 and 2004, there were 8,875,476 and 8,782,978 shares of common stock issued and outstanding, respectively.

In March 2000, the Company issued \$ 124,000 of notes payable convertible into common stock at a price equal to \$.50 per share. As of December 31, 2000, the holders of the notes payable elected to convert \$52,000 of the notes, net of costs, in exchange for 104,000 shares of the Company's common stock.

In January 2001, the holders of the \$ 72,000 of convertible Notes Payable, exercised their rights to convert the unpaid principal to 144,000 shares of the Company's common stock at the conversion price of \$.50 per share.

In January 2001, \$15,000 of convertible notes payable were issued and converted to 30,000 shares of the Company's common stock.

In January 2001, the Company issued 5,000,000 shares of its common stock to the Company's Founders in exchange for services provided to the Company from its inception. The Company valued the shares issued at \$.001 per share, which approximated the fair value of the services rendered. The compensation costs of \$5,020 were charged to income during the year ended December 31, 2001.

In January 2001, the Company issued 90,000 shares of its common stock to consultants in exchange for services provided to the Company. The Company valued the shares issued at \$.50 per share, which approximated the fair value of the shares issued during the period the services were rendered. The compensation costs of \$ 45,000 were charged to income during the year ended December 31, 2001.

During the year ended December 31, 2003, the Company authorized the issuance of 60,000 shares of newly designated Series A Convertible Preferred stock, with a par value of \$0.001 per share. As of December 31, 2003 the Company issued 55,000 shares of the Series A Convertible Preferred stock in exchange for \$275,000, net of costs and fees.

The Series A Convertible Preferred Stock are convertible into the Company's common stock at the option of the holder at a ratio of ten (10) shares of common stock for each share of preferred stock if converted before the first anniversary of the original issue date and at a ratio of five (5) shares of common stock for each share of preferred stock if conversion is made after the first anniversary but before the second anniversary.

The preferred shares may be redeemed for cash at the option of the Company, any time after the first anniversary of the original issue date but before the second anniversary. The Preferred Shareholders shall be entitled to cumulative dividends when and if declared by the Company's Board of Directors at a per share rate of 10% per annum of the original issue price. At the option of the preferred shareholders, accrued and unpaid cumulative dividends may be applied to the purchase of additional shares of the Company's common stock upon conversion of the preferred shares to common shares. The Preferred Shares rank senior to the common stock. The Preferred Shares have a liquidation preference of payment of the original purchase price of the Preferred Shares plus all declared but unpaid dividends on such shares.

The fair value of the Company's common stock at the time the conversion option was granted was below the value of the Preferred Stock if converted. Accordingly, the Company recognized no beneficial conversion feature embedded in the Series A Preferred Stock.

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 expenses and was charged to operations during the year ended December 31, 2004. The preferred shares tendered were subsequently cancelled by the Company.

In April 2004, the Company issued an aggregate of 300,000 shares of its restricted common stock to an investor in exchange for \$90,000 of proceeds, net of costs and fees.

Pursuant to the Private Placement Memorandum, the Company was obligated to issue an aggregate of 2,460,000 shares of its common stock, valued at \$1,387,477 net of placement costs attributable to the equity portion of the private placement, to the investors in connection with 984 units sold in the private placement as of December 31, 2004. The Company has issued an aggregate of 2,404,978 shares to the investors at December 31, 2004, and the remaining aggregate of 54,998 shares were issued to the investors in January 2005 (fractional shares of 24 shares of common stock will not be issued). The Company has accounted for the shares not issued at December 31, 2004 as common stock subscription payable in the amount of \$25,581.

In December 2004, the Company's Series A Preferred Stock holders elected to convert an aggregate of 50,000 shares of Preferred Stock into 500,000 shares of the Company's common stock, at a ratio of ten (10) shares of common stock for each share of preferred stock. In connection with the conversion, the Company also issued an aggregate of 50,000 shares of its common stock in exchange for \$25,000 of dividends in arrears. As of December 31, 2004, all Series A Convertible Preferred Stock has been converted to the Company's common stock, and there was no Preferred Stock issued and outstanding at December 31, 2004.

In January 2005, pursuant to the Private Placement Memorandum, the Company was obligated to issue an aggregate of 37,500 shares of its common stock, valued at \$25,188 to the investors in connection with 15 units sold in the private placement as of December 31, 2005.

NOTE H - PUT 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 (put 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 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 put 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 put option was determined to have a fair value of \$158,752 at year end 2004. Accordingly, \$11,504 has been credited to other expense.

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

NOTE I - STOCK OPTIONS AND WARRANTS

STOCK 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's Chief Executive Officer. These options were granted in lieu of cash compensation for services performed or other consideration.

| Exercise Price | Options Outstanding | | Options Exercisable | | |
|----------------|---------------------|---|---------------------------------|---------------------|------------------------|
| | Number Outstanding | Weighted Average Contractual Life (Years) | Weighted Average Exercise Price | Numbers Exercisable | Average Exercise Price |
| \$ 0.50 - 2.00 | 1,500,000 | 4.84 | \$1.35 | 1,500,000 | \$ 1.35 |

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Transactions involving options issued to employees and consultants during 2005 and 2004 are summarized as follows:

| | Number of Shares | Weighted Average Price Per Share |
|----------------------------------|---------------------|--|
| Outstanding at December 31, 2003 | 2,337,500 | \$ 1.07 |
| Granted | - | - |
| Exercised | (160,000) | 0.56 |
| Cancelled or expired | (677,500) | 0.56 |
| Outstanding at December 31, 2004 | 1,500,000 | 1.35 |
| Granted | - | - |
| Exercised | - | - |
| Cancelled or expired | - | - |
| Outstanding at December 31, 2005 | 1,500,000 | \$ 1.35 |

The Company did not grant any stock options to shareholders during the years ended December 31, 2005 or 2004.

WARRANTS

In connection with the Company's Private Placement, the Company granted 15 and 984 warrants to purchase an aggregate of 4,500 and 295,200 shares of common stock to investors during the years ended December 31, 2005 and 2004, respectively. Each warrant will be exercisable for 300 shares of the Company's common stock at \$0.85 per share. During the year ended December 31, 2004, the Company granted 594,000 warrants to a placement agent in exchange for services. Each warrant will be exercisable for one share of the Company's common stock at \$0.85 per share.

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

| Exercise Price | Warrants Outstanding | | Warrants Exercisable | | |
|-------------------|-----------------------|---|--|------------------------|------------------------------|
| | Number Outstanding | Weighted Average Contractual Life (Years) | Weighted Average Exercise Price | Numbers Exercisable | Average Exercise Price |
| \$ 0.85 | 594,999 | 3.69 | \$ 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 December 31, 2003 | - | \$ - |
| Granted | 889,200 | 0.85 |
| Exercised | - | - |
| Cancelled or expired | - | - |
| Outstanding at December 31, 2004 | 889,200 | 0.85 |
| Granted | 4,500 | 0.85 |
| Exercised | - | - |
| Cancelled or expired | - | - |
| Outstanding at December 31, 2005 | 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 and the financing costs were amortized over the contractual terms (five years) of the convertible debenture. During the year ended December 31, 2005 and 2004, the Company amortized financing costs and charged to operations \$110,591 and \$39,411, respectively, in connection with these warrants.

NOTE J - 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 transaction as an addition to paid-in capital.

NOTE K - OTHER INCOME

SALE OF TIMBER

During the year ended December 31, 2004, the Company generated other income of \$60,948 in connection with selling timber on the spring property.

NOTE L - EARNINGS PER SHARE

| | 2005 | | |
|--|-----------------------|-------------------------|---------------------|
| | Income (Numerator) | Shares (Denominator) | Per-share Amount |
| Loss available to common shareholders | \$ (1,116,048) | | |
| Basic and fully diluted loss per share | \$ (1,116,048) | 8,874,462 | \$ (0.13) |
| 2004 | | | |
| Loss | \$ (331,449) | | |
| Less - preferred dividends | (25,000) | | |
| Loss available to common shareholders | \$ (356,449) | 6,363,095 | \$ (0.06) |

Options to purchase 1,500,000 shares of common stock at \$1.25 per share outstanding during 2005 and 2004 as well as options to purchase 677,500 shares of common stock at \$0.56 per share outstanding during 2004 were not included in the computation of diluted earnings per share due to their anti-dilutive effect on earnings per share. The options to purchase 1,500,000 shares of common stock were still outstanding at the end of year 2005.

Warrants to purchase 893,700 and 889,200 shares of common stock at \$0.85 per share were outstanding at December 31, 2005 and 2004, respectively, and were not included in the computation of diluted earnings per share due to their anti-dilutive effect on earnings per share.

Convertible notes with the option to purchase 1,762,942 and 1,736,471 shares of common stock at \$0.85 per share were outstanding at December 31, 2005 and 2004, respectively, and were not included in the computation of diluted earnings per share due to their anti-dilutive effect on earnings per share.

NOTE M - INCOME TAXES

The Company has adopted SFAS 109, which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Permanent differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant.

For income tax reporting purposes, the Company's aggregate unused net operating losses approximate \$2,014,000, and expire through 2025, subject to limitations of Section 382 of the Internal Revenue Code, as amended. The deferred tax assets related to the net operating loss carryforwards are approximately \$673,500 and \$281,900 for the years ended December 31, 2005 and 2004, respectively.

The Company has provided a valuation reserve against the full amount of the net operating loss benefit for 2005 and 2004 since, in the opinion of management based upon the earning history of the Company, it is unlikely the benefits will be realized.

NOTE N - COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS

The Company leases office space for its corporate offices in Alexandria, Virginia on a month to month basis. Rental expense for the years ended December 31, 2005 and 2004 was \$2,308 and \$2,294, respectively, and was charged to operations in the period incurred.

EMPLOYMENT AND CONSULTING AGREEMENTS

The Company has an employment agreement with the Company's President and Chief Executive Officer. In addition to salary provisions, the agreement includes defined commitments should the employee terminate the employment with or without cause.

The Company has consulting agreements with outside contractors to provide web development and business development services. The agreements are generally for a term of 12 months from inception and renewable automatically from year to year unless either the Company or Consultant terminates such engagement with written notice.

NOTE O - LINE OF CREDIT

On September 12, 2005, the Company entered into an investment agreement (Agreement) with Dutchess Private Equities Fund, LP (Dutchess) to provide the Company with an Equity Line of Credit. Pursuant to the Agreement, Dutchess has agreed to provide the Company with up to \$5,000,000 of funding during the 36-month period following the date a registration statement of the Company's common stock is declared effective by the Securities and Exchange Commission. During this 36 month period, the Company may request a draw down under the Equity Line of Credit by which the Company would sell shares of its common stock to Dutchess, which is obligated to purchase the shares under the Agreement. The Company may, at its election, require Dutchess to purchase an amount equal to no more than either (a) 200% of the average daily volume of the Company's

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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 the Company 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 the Company's common stock during the pricing period. The Company is under no obligation to draw down under the Equity Line of Credit. As of December 31, 2005, no registration statement has been filed with respect to the Company's common stock and the investment Agreement.

NOTE P - 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 \$2,014,185. 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 Q - RESTATEMENT OF FINANCIAL STATEMENTS

The Company has restated its financial statements for the year ended December 31, 2005 and 2004 to correct the following errors in the financial statements previously filed:

In connection with the preparation of the Company's December 31, 2005 financial statements, it was determined the correct application of accounting principles had not been applied in connection with the accounting of the 2004 Private Placement ("Placement" - see Note F), put agreement (see Note H) and overpayment to the shareholder (see Note J). Subsequent to the issuance of the December 31, 2005 financial statements, the Company determined the correct application of accounting principles had not been applied in recording the original restatement of the put agreement in 2004, as well as accounting for termination of the agreement during the year ended December 31, 2005.

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.

During 2004, the put agreement had been recorded under SFAS 150 with changes in fair value being charged to other expense. In connection with the preparation of the Company's December 31, 2005 financial statements, the fair value attributed to the put agreement as of the end of 2005 was determined to be the present value of the contract payment. An adjustment was done to restate the 2004 financials, and the 2005 year end report reflected the value of the put agreement liability as being \$200,000. Subsequent to the issuance of the December 31, 2005 financial statements, the Company determined the correct application of accounting principles had not been applied in recording the original restatement of the put agreement in 2004, as well as accounting for termination of the agreement during the year ended December 31, 2005. 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 are currently reflected in the reported 2005 and 2004 financial information. The impact to the previously issued 2005 and 2004 financial statements is as follows:

| | 2005 financial statement balance prior to restatement | 2005 financial statement balance post restatement | Amount increase (decrease) in 2005 financials |
|----------|--|--|--|
| Net loss | \$ (1,184,800) | \$ (1,116,048) | \$ (68,752) |
| Equity | \$ 784,067 | \$ 984,067 | \$ 200,000 |
| Assets | \$ 2,713,139 | \$ 2,713,139 | \$ -- |

| | | | | | | |
|----------------|----|-----------|----|-----------|----|-----------|
| Liabilities | \$ | 1,929,072 | \$ | 1,729,072 | \$ | (200,000) |
| Loss per share | \$ | (0.13) | \$ | (0.13) | \$ | -- |

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| | 2004 financial statement balance prior to restatement | 2004 financial statement balance post restatement | Amount increase (decrease) in 2004 financials |
|----------------|--|--|--|
| Net loss | \$ (454,171) | \$ (331,449) | \$ (122,722) |
| Equity | \$ 1,811,237 | \$ 1,886,712 | \$ 75,475 |
| Assets | \$ 3,332,528 | \$ 3,475,514 | \$ 142,986 |
| Liabilities | \$ 1,521,291 | \$ 1,588,802 | \$ 67,511 |
| Loss per share | \$ (0.09) | \$ (0.05) | \$ (0.04) |

The resulting effect of the prior period adjustment on 2005 net loss by area is as follows:

| | Amount increase (decrease) in net loss |
|---------------|---|
| Put agreement | \$ (68,752) |

The resulting effects of the prior period adjustments on 2004 net loss by area are as follows:

| | Amount increase (decrease) in net loss |
|-------------------------------|---|
| Private Placement transaction | \$ 8,532 |
| Put agreement | 12,752 |
| Shareholder overpayment | (144,006) |
| | \$ (122,722) |

The resulting effects of the prior period adjustments on 2004 cash flows by area are as follows:

| | 2004 cash flow statement balance prior to restatement | 2004 cash flow statement balance post restatement | Amount increase (decrease) in 2004 cash flow statement |
|------------------------------------|--|--|---|
| Net cash from operating activities | \$ (1,975,169) | \$ (1,894,662) | \$ 80,507 |

| | | | | | | |
|------------------------------------|----|-----------|----|-----------|----|----------|
| Net cash from investing activities | \$ | (7,592) | \$ | (7,592) | \$ | - |
| Net cash from financing activities | \$ | 2,173,180 | \$ | 2,092,673 | \$ | (80,507) |

The prior period adjustment on the 2005 financial statements did not have an effect on the cash flows. Net cash from operating, investing and financing activities remain as previously reported.

Interim financials issued in 2005 were also impacted by the incorrect application of accounting principles in continued accounting for the Private Placement, put agreement and overpayment to the shareholder. Interim financials issued throughout 2005 have not been reissued. The necessary corrections to apply the accounting principles on the aforementioned transactions are currently reflected in the reported 2005 annual financial information.

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