

Genesis Fluid Solutions Holdings, Inc.

Form 10-Q

May 21, 2010

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q**

**(Mark One)**

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2010  
OR**

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
COMMISSION FILE NUMBER 333-148346  
Genesis Fluid Solutions Holdings, Inc.  
(Exact Name of small business issuer as specified in its charter)**

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**98-0531496**  
(I.R.S. Employer  
Identification No.)

**830 Tender Foot Hill Road #301, Colorado Springs, CO 80906**  
(Address of principal executive offices) (Zip Code)

Issuer's telephone Number: **(719) 332-7447**

Indicate by check mark whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

As of May 20, 2010 the issuer had 17,751,500 outstanding shares of Common Stock.

TABLE OF CONTENTS

	<b>Page</b>
<u><b>PART I</b></u>	
<u>Item 1. Financial Statements</u>	F-1
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	4
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	6
<u>Item 4T. Controls and Procedures</u>	6
<u><b>PART II</b></u>	
<u>Item 1. Legal Proceedings</u>	7
<u>Item 1A. Risk Factors</u>	7
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	7
<u>Item 3. Defaults Upon Senior Securities</u>	8
<u>Item 4. Reserved</u>	8
<u>Item 5. Other Information</u>	8
<u>Item 6. Exhibits</u>	9
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	

**Table of Contents**

**PART I**

**ITEM 1. FINANCIAL STATEMENTS.**

**Genesis Fluid Solutions Holdings, Inc. and Subsidiary Index to Condensed Consolidated Financial Statements**

	<b>Page</b>
Financial Statements	
<u>Condensed Consolidated Balance Sheets March 31, 2010 (unaudited) and December 31, 2009</u>	F-2
<u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2010 and 2009 (unaudited)</u>	F-3
<u>Condensed Consolidated Statement of Changes in Stockholders Equity for the three months ended March 31, 2010 (unaudited)</u>	F-4
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2010 and 2009 (unaudited)</u>	F-5
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	F-7

**Table of Contents****GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2010 (Unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,132,423	\$ 4,873,912
Costs in excess of billings on uncompleted contracts	132,655	59,506
Prepaid expenses and other current assets	177,773	185,273
Total current assets	4,442,851	5,118,691
Property and equipment, net	738,579	719,469
Total assets	\$ 5,181,430	\$ 5,838,160
Liabilities and Stockholders' Equity		
Current liabilities:		
Warrant derivative liability	\$ 1,266,858	\$ 804,718
Accrued expenses	431,302	476,800
Accounts payable	234,855	82,206
Billings in excess of costs on uncompleted contracts	200,109	201,219
Equipment payable	84,795	84,795
Loan payable	68,076	68,076
Settlement due to vendor	59,267	84,667
Obligations under capital leases	37,561	59,216
Note payable	12,500	10,000
Notes payable - related parties		14,575
Total current liabilities	2,395,323	1,886,272
Commitments and contingencies	See Note 9	
Stockholders' equity:		
Preferred stock, \$0.001 par value; 25,000,000 shares authorized, zero shares issued and outstanding		
Common stock, \$0.001 par value; 100,000,000 shares authorized, 17,751,500 and 17,668,500 issued and outstanding, respectively	17,752	17,669
Additional paid-in capital	10,207,014	10,152,118
Accumulated deficit	(7,438,659)	(6,217,899)
Total stockholders' equity	2,786,107	3,951,888

Total liabilities and stockholders' equity	\$	5,181,430	\$	5,838,160
--	----	-----------	----	-----------

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

F-2

---

**Table of Contents**

**GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)**

	For the Three Months Ended March 31, 2010	For the Three Months Ended March 31, 2009
Revenues	\$	\$
Cost of revenues		
Gross profit		
Operating expenses:		
Selling, general and administrative	688,526	209,025
Total operating expenses	688,526	209,025
Operating loss	(688,526)	(209,025)
Other income (expense):		
Interest income	4,344	
Change in warrant derivative liability	(462,140)	
Liquidated damages expense	(68,250)	
Interest expense	(5,388)	(141,534)
Total other income (expense), net	(531,434)	(141,534)
Loss before income taxes	(1,219,960)	(350,559)
Income tax expense	(800)	
Net loss	(1,220,760)	(350,559)
Other comprehensive income:		
Gain on foreign currency translation, net of income tax of \$0		1,440
Total other comprehensive income, net of income taxes		1,440
Comprehensive loss	\$ (1,220,760)	\$ (349,119)

Edgar Filing: Genesis Fluid Solutions Holdings, Inc. - Form 10-Q

Net loss per share	basic and diluted	\$	(0.07)	\$	(0.04)
Weighted average number of common shares	basic and diluted		17,679,567		10,000,000

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

F-3

---



Table of Contents

**GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY  
FOR THE THREE MONTHS ENDED MARCH 31, 2010  
(Unaudited)**

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-In Capital	Deficit	Stockholders Equity
Balance, December 31, 2009	17,668,500	\$ 17,669	\$ 10,152,118	\$ (6,217,899)	\$ 3,951,888
Common shares issued to consultant per settlement	83,000	83	41,417		41,500
Stock option expense			13,479		13,479
Net loss				(1,220,760)	(1,220,760)
Balance, March 31, 2010	17,751,500	\$ 17,752	\$ 10,207,014	\$ (7,438,659)	\$ 2,786,107

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

**Table of Contents**

**GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)**

	For the Three Months Ended March 31, 2010	For the Three Months Ended March 31, 2009
Cash flows from operating activities:		
Net loss	\$ (1,220,760)	\$ (350,559)
Adjustments to reconcile net loss to net cash used in operating activities:		
Change in warrant derivative liability	462,140	
Stock-based compensation	54,979	
Depreciation of property and equipment	26,950	31,984
Amortization of patents		1,103
Stock-based loan fees		33
Changes in operating assets and liabilities:		
Increase in inventories		(236)
Increase in costs in excess of billings on uncompleted contracts	(73,149)	
Decrease in prepaid expenses and other current assets	7,500	60,468
Decrease in other assets		1,001
Decrease in accrued expenses	(45,498)	(6,877)
Increase in accounts payable	152,649	99,472
Decrease in billings in excess of costs on uncompleted contracts	(1,110)	
Decrease in settlement due to vendor	(25,400)	
Net cash used in operating activities	(661,699)	(163,611)
Cash flows from investing activities:		
Purchases of property and equipment	(46,060)	
Patent costs		(8,572)
Net cash used in investing activities	(46,060)	(8,572)
Cash flows from financing activities:		
Capital contributions received		240,000
Principal payments on notes payable	(10,000)	(42,088)
Principal payments on secured note payable		(50,003)
Proceeds from notes payable related parties		118,000
Principal payments on notes payable related parties	(2,075)	(25,000)
Principal payments on capital leases	(21,655)	(14,755)
Net cash (used in) provided by financing activities	(33,730)	226,154
Effect of exchange rate changes on cash		1,440

Edgar Filing: Genesis Fluid Solutions Holdings, Inc. - Form 10-Q

Net (decrease) increase in cash and cash equivalents	(741,489)	55,411
Cash and cash equivalents at beginning of period	4,873,912	9,076
Cash and cash equivalents at end of period	\$ 4,132,423	\$ 64,487

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

F-5

---

**Table of Contents**

**GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)**

	For the Three Months Ended March 31, 2010	For the Three Months Ended March 31, 2009
Supplemental disclosure of cash flow information:		
Interest paid	\$ 4,174	\$ 34,361
Income taxes paid	\$ 800	\$
Non-cash investing and financing activities:		
Reclassification of note payable related party to note payable	\$ 12,500	\$
Conversion of convertible notes payable to common stock	\$	\$ 30,754
Conversion of accrued interest payable to common stock	\$	\$ 10,213

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

**Table of Contents**

**GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2010  
(Unaudited)**

**Note 1. Nature of Operations and Basis of Presentation**

**Overview**

Genesis Fluid Solutions Holdings, Inc. ( Holdings or the Company ) is an environmental company that supplies a Rapid Dewatering System ( RDS ) technology for dredged material, including fine-grained sediment, for lake and waterway restoration. The Company s subsidiary, Genesis Fluid Solutions, Ltd ( Genesis Ltd ), was incorporated on October 26, 2005 under the laws of the State of Colorado.

On October 30, 2009, Genesis Ltd. entered into and consummated an Agreement of Merger and Plan of Reorganization (the Merger Agreement ) with Holdings, an inactive publicly-held company, and Genesis Fluid Solutions Acquisition Corp. ( Acquisition Sub ), which was Holdings newly formed, wholly-owned Delaware subsidiary. Upon closing of the transaction contemplated under the Merger Agreement (the Merger ), Acquisition Sub merged with and into Genesis Ltd., and Genesis Ltd., as the surviving corporation, became a wholly-owned subsidiary of Holdings. On October 30, 2009, the Company changed its name to Genesis Fluid Solutions Holdings, Inc.

At the closing of the Merger, each share of Genesis Ltd. common stock that was issued and outstanding immediately prior to the closing of the Merger was exchanged for ten shares of Holdings common stock. This transaction was treated as a recapitalization of Genesis Ltd. with 1,160,000 common shares deemed issued to the pre-merger stockholders of Holdings. Subsequent to the merger, but prior to the same day closing of the first tranche of a private placement of common stock and warrants, the stockholders of Genesis Ltd. had approximately 89% voting control of the Company. The accounting effects of the recapitalization are reflected retroactively for all periods presented in the accompanying unaudited condensed consolidated financial statements and footnotes.

**Basis of Presentation**

The interim condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC ). In the opinion of the Company s management, all adjustments (consisting of normal recurring adjustments and reclassifications and non-recurring adjustments) necessary to present fairly our results of operations and cash flows for the three months ended March 31, 2010 and 2009 and our financial position as of March 31, 2010 have been made. The results of operations for such interim periods are not necessarily indicative of the operating results to be expected for the full year.

Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or omitted from these interim condensed consolidated financial statements. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed with the SEC on April 15, 2010. The December 31, 2009 balance sheet is derived from those statements.

All references to outstanding shares, options, warrants and per share information have been adjusted to give effect to the recapitalization effective October 30, 2009.

**Note 2. Significant Accounting Policies**

**Use of Estimates**

Our unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ( GAAP ). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of our unaudited condensed consolidated financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our unaudited condensed consolidated financial statements would be affected to the extent there are material differences between these estimates and actual results. In many cases, the accounting

treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result. Significant estimates include the estimates of depreciable lives and valuation of property and equipment, valuation of derivatives, valuation of payroll tax contingencies, valuation of share-based payments, and the valuation allowance on deferred tax assets.

**Table of Contents**

**GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2010  
(Unaudited)**

**Principles of Consolidation**

The condensed consolidated financial statements include the accounts of Holdings and its wholly-owned subsidiary Genesis Ltd. All significant inter-company balances and transactions have been eliminated in consolidation.

**Cash and Cash Equivalents**

The Company considers all short-term highly liquid investments with an original maturity at the date of purchase of three months or less to be cash equivalents. There were no cash equivalents at March 31, 2010.

**Fair Value Measurements**

On January 1, 2008, the Company adopted the provisions of ASC Topic 820 Fair Value Measurements and Disclosures. ASC Topic 820 defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value and expands disclosure of fair value measurements. Excluded from the scope of ASC Topic 820 are certain leasing transactions accounted for under ASC Topic 840, Leases. The exclusion does not apply to fair value measurements of assets and liabilities recorded as a result of a lease transaction but measured pursuant to other pronouncements within the scope of ASC Topic 820.

**Net Loss Per Share**

Basic net loss per share is computed by dividing the net loss by the weighted average number of shares of common stock outstanding during the periods presented. Diluted net loss per common share is computed using the weighted average number of common shares outstanding for the period, and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options, stock warrants, convertible debt instruments or other common stock equivalents.

Options to purchase 3,222,000 common shares and warrants to purchase 3,520,000 common shares were outstanding during the three months ended and at March 31, 2010, but were not included in the computation of diluted loss per share because the effects would have been anti-dilutive. These options and warrants may dilute future earnings per share.

**Reclassifications**

Certain amounts in the accompanying 2009 condensed consolidated financial statements have been reclassified to conform to the 2010 presentation.

**Accounting for Derivatives**

The Company evaluates its options, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for under ASC Topic 815, Derivatives and Hedging. The result of this accounting treatment is that the fair value of the derivative is marked-to-market each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as other income (expense). Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. Equity instruments that are initially classified as equity that become subject to reclassification under ASC Topic 815 are reclassified to liability at the fair value of the instrument on the reclassification date.

**Recently Issued Accounting Standards**

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This update provides amendments to Topic 820 that will provide more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. The adoption of ASU 2010-06 did not have a material impact on the Company's consolidated results of operations or financial condition.





Table of Contents

**GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2010**  
**(Unaudited)**

In February 2010, the FASB issued ASU 2010-09, Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements. This update addresses both the interaction of the requirements of Topic 855, Subsequent Events, with the SEC's reporting requirements and the intended breadth of the reissuance disclosures provision related to subsequent events (paragraph 855-10-50-4). The amendments in this update have the potential to change reporting by both private and public entities, however, the nature of the change may vary depending on facts and circumstances. The adoption of ASU 2010-09 did not have a material impact on the Company's consolidated results of operations or financial condition.

**Note 3. Going Concern**

As reflected in the accompanying condensed consolidated financial statements for the three months ended March 31, 2010, the Company had a net loss of \$1,220,760 and cash used in operations of \$661,699. At March 31, 2010, the Company had an accumulated deficit of \$7,438,659. In addition, the Company has had no revenue generating activities in 2010 and is transitioning to a new business model. These matters raise substantial doubt about the Company's ability to continue as a going concern. At March 31, 2010, the Company had working capital of \$2,047,528, which includes a warrant derivative liability of \$1,266,858. Management plans to utilize its working capital to implement its business plan. The condensed consolidated financial statements do not include any adjustments relating to the recovery of the recorded assets or the classification of the liabilities that might be necessary should the Company be unable to implement its business plan and continue as a going concern.

**Note 4. Costs In Excess of Billings (Billings in Excess of Costs) On Uncompleted Contracts**

Costs in excess of billings on uncompleted contracts (calculated on an individual contract basis) represent accumulated contract costs that exceeded billings and/or cash received on uncompleted contracts.

At March 31, 2010 and December 31, 2009, costs in excess of billings on uncompleted contracts consisted of the following:

	March 31, 2010	December 31, 2009
Costs on uncompleted contracts	\$ 149,745	\$ 76,596
Less: Billings and/or cash receipts on uncompleted contracts	(17,090)	(17,090)
Costs in excess of billings on uncompleted contracts	\$ 132,655	\$ 59,506

Billings in excess of costs on uncompleted contracts (calculated on an individual contract basis) represents billings and/or cash received that exceed accumulated contract costs on uncompleted contracts.

At March 31, 2010 and December 31, 2009, billings in excess of costs on uncompleted contracts consisted of the following:

	March 31, 2010	December 31, 2009
Billings and/or cash receipts on uncompleted contracts	\$ 215,000	\$ 215,000
Less: Costs on uncompleted contracts	(14,891)	(13,781)
Billings in excess of costs on uncompleted contracts	\$ 200,109	\$ 201,219

**Note 5. Accrued Expenses**

Accrued expenses consisted of the following at March 31, 2010 and December 31, 2009:

Edgar Filing: Genesis Fluid Solutions Holdings, Inc. - Form 10-Q

	March 31, 2010	December 31, 2009
Payroll and related benefits	\$ 235,906	\$ 288,945
Separation agreement	70,000	70,000
Accrued interest	11,833	12,180
Other	113,563	105,675
Total	\$ 431,302	\$ 476,800

F-9

---

**Table of Contents**

**GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2010**  
**(Unaudited)**

The Company has accrued payroll and estimated related taxes, including estimated penalties and interest, to various taxing authorities, including the Internal Revenue Service, that pertain to various years of service. At March 31, 2010 and December 31, 2009, estimated penalties and interest in the amounts of \$63,709 were included in payroll and related benefits in the above table.

**Note 6. Fair Value Measurements**

The estimated fair value of certain financial instruments, including cash and cash equivalents and current liabilities, are carried at historical cost basis, which approximates their fair values because of the short-term nature of these instruments.

The accounting standard for fair value measurements provides a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. Fair value is defined as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The accounting standard established a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company's own assumptions used to measure assets and liabilities at fair value. An asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Assets and liabilities measured at fair value on a recurring and non-recurring basis consisted of the following at March 31, 2010:

	Total Carrying Value at March 31, 2010	Fair Value Measurements at March 31, 2010		
		(Level 1)	(Level 2)	(Level 3)
Liabilities:				
Warrant derivative liability	\$ 1,266,858	\$	\$	\$ 1,266,858

The following is a summary of activity of Level 3 liabilities for the three months ended March 31, 2010:

Balance at December 31, 2009	\$ 804,718
Change in fair value	462,140
Balance at March 31, 2010	\$ 1,266,858

Changes in fair value of the warrant derivative liability are included in other income (expense) in the accompanying consolidated statements of operations.

The Company estimates the fair value of the warrant derivative liability utilizing the Black-Scholes option pricing model, which is dependent upon several variables such as the expected warrant term, expected volatility of our stock price over the expected warrant term, expected risk-free interest rate over the expected warrant term, and the expected dividend yield rate over the expected warrant term. The Company believes this valuation methodology is appropriate for estimating the fair value of the warrant derivative liability. The following table summarizes the assumptions the Company utilized to estimate the fair value of the warrant derivative liability at March 31, 2010:

Edgar Filing: Genesis Fluid Solutions Holdings, Inc. - Form 10-Q

Assumptions	March 31, 2010
Expected term (years)	1.6 2.8
Expected volatility	176.1%
Risk-free interest rate	1.02% 1.60%
Dividend yield	0.00%

F-10

---

**Table of Contents**

**GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2010**  
**(Unaudited)**

The expected warrant term is based on the remaining contractual term. The expected volatility is based on historical volatility. The risk-free interest rate is based on the U.S. Treasury yields with terms equivalent to the expected term of the related warrant at the valuation date. Dividend yield is based on historical trends. While the Company believes these estimates are reasonable, the fair value would increase if a higher expected volatility was used, or if the expected dividend yield increased.

There were no changes in the valuation techniques during the three months ended March 31, 2010.

**Note 7. Notes Payable**

Notes payable consisted of the following at March 31, 2010 and December 31, 2009:

	March 31, 2010	December 31, 2009
Notes payable	\$ 12,500	\$ 10,000
Less: Current maturities	(12,500)	(10,000)
Amount due after one year	\$	\$

Activities pertaining to notes payable for the three months ended March 31, 2010, were as follows:

	For the Three Months March 31, 2010
Beginning balance	\$ 10,000
Principal payments	(10,000)
Reclassification from notes payable related parties	12,500
Ending balance	\$ 12,500

The weighted average interest rate for notes payable outstanding as of March 31, 2010 was 15%.

**Note 8. Notes Payable Related Party**

Notes payable related party consisted of the following at March 31, 2010 and December 31, 2009:

	March 31, 2010	December 31, 2009
Notes payable related parties	\$	\$ 14,575
Less: Current maturities		(14,575)
Amount due after one year	\$	\$

Activities pertaining to notes payable related parties for the three months ended March 31, 2010, were as follows (See also Note 12):

	For the Three Months March 31, 2010
Beginning balance	\$ 14,575

Principal payments	(2,075)
Reclassification to note payable	(12,500)
Ending balance	\$

F-11

---

**Table of Contents**

**GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2010  
(Unaudited)**

**Note 9. Commitments and Contingencies**

**Settlement Due to Vendor**

On May 27, 2008, Eagle North America, Inc. ( Eagle ), which provided certain equipment and consulting services to the Company, filed suit against the Company and Michael Hodges, Chief Executive Officer and Director, for monies owed pursuant to an equipment lease agreement between Eagle and the Company. Eagle claimed damages of \$152,103. The Company made counter claims against Eagle for breach of certain representations and warranties, alleged damages related to the performance and operation of certain leased equipment and losses incurred as a result of its inadequate operation and maintenance of approximately \$280,000. The Company and Eagle entered mediation in November 2008. On June 26, 2009, the parties entered into a settlement agreement pursuant to which Eagle dismissed its claims against the Company, and the Company dismissed its claims against Eagle. Pursuant to the settlement agreement, the Company is required to pay Eagle the aggregate sum of \$152,000, payable as follows: (i) \$25,000 within thirty days of the settlement, and (ii) thereafter 15 equal installments of \$8,467 commencing August 26, 2009. As of March 31, 2010, the remaining balance due under the settlement due to vendor was \$59,267, all of which is current in nature.

**Registration Rights**

As part of a private placement, we have agreed to file a resale registration statement with the SEC covering all shares of our common stock included within the Units sold in the Offering and underlying any warrants as well as the shares underlying the Placement Agent warrants, on or before the date which is 90 days after the final closing date of the Private Placement or the termination date, whichever occurs later (the Filing Deadline ). We will maintain the effectiveness of the resale registration statement from the effective date through and until twelve (12) months after the final closing date, unless all securities registered under the registration statement have been sold or are otherwise able to be sold pursuant to Rule 144. We have agreed to use commercially reasonable efforts to have the resale registration statement declared effective by the SEC as soon as possible and, in any event, within 180 days after the final closing date of the Private Placement or the termination date, whichever occurs later (the Effectiveness Deadline ). In addition, if the registration statement is not effective, then the investors in the Offering are permitted to piggy-back onto other registration statements that are filed by the Company, with certain exceptions. One of these exceptions is in connection with a registration statement filed to register the sale of certain shares held in escrow in connection with the Merger. We are obligated to pay to investors in the Offering a fee of 1% per month of the investors investment, payable in cash for each month: (i) in excess of the Filing Deadline that the registration statement has not been filed; and, (ii) in excess of the Effectiveness Deadline that the registration statement has not been declared effective; provided, however, that the Company shall not be obligated to pay any liquidated damages if the Company is unable to fulfill its registration obligations as a result of rules, regulations, positions or releases issued or actions taken by the SEC pursuant to its authority with respect to Rule 415, provided the Company registers at that time the maximum number of shares of common stock permissible upon consultation with the staff of the SEC. The maximum potential penalty under the registration rights agreement is 10%, which amounts to \$682,500. On March 29, 2010, the Company defaulted on the Filing Deadline of the Registration Rights Agreement as the Company had not yet filed a registration statement covering the securities issued in the private placement. Accordingly, the Company accrued liquidated damages of 1% in accordance with the Private Placement. On April 15, 2010, the registration statement was filed with the SEC thereby eliminating any future potential liquidated damages pertaining to the Filing Deadline.

**Legal Matters**

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. As of March 31, 2010, other than what is described in this section, Legal Matters , there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on our results of operations. In September 2006, the Company entered into a five-year exclusive license agreement with an entity located in the Netherlands (the Entity ) to complete projects and develop the revenues and marketing presence of the Company in the

Netherlands, France, and Germany. Though never consummated, it was the intent of the parties to enter into a joint venture. The parties completed one project, which has become the subject of a dispute. Each party has alleged certain damages and defenses as a result of the project. However, the parties are working together to resolve the matter. In order to conduct the project completed with the Entity, the Company relocated certain RDS equipment from the United States to the Netherlands. The RDS equipment transferred is currently under the control of the Entity, and is part of the dispute between the parties described above. As of March 31, 2010, no formal legal claim had been filed with any jurisdiction by either party.



**Table of Contents**

**GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2010**  
**(Unaudited)**

The former chief financial officer of the Company has claimed breach of his separation agreement. The Company has made certain counterclaims. As of March 31, 2010, no formal legal claim had been filed with any jurisdiction by either party (See Note 12).

On February 15, 2010, the Company entered into an agreement with a vendor for the vendor to perform marketing services. On March 2, 2010, the Company terminated its agreement with the vendor. On March 23, 2010, the vendor filed suit for breach of contract claiming amounts owed of approximately \$41,000. The Company disputes this claim and intends to rigorously defend its position.

**Note 10. Stockholders Equity****Common Stock**

As the Company's stock is very thinly traded and the public float is less than 10% of the total shares outstanding, management does not deem the market price per share to be representative of the fair value of the Company's common stock. Thus, for the purpose of valuing and recording equity transactions during the three months ended March 31, 2010, the Company continued to utilize a stock price of \$0.50 per share obtained from an independent certified valuation report of the value of its common stock as of October 30, 2009.

On March 19, 2010, the Company entered into a settlement agreement with an individual that had been engaged May 11, 2009 to perform financial advisory services for the Company. As a result of the settlement, the Company issued 83,000 shares of the Company's common stock having a fair value of \$41,500.

**Common Stock Warrants**

A summary of the Company's warrant activity during the three months ended March 31, 2010 is presented below:

	No. of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance Outstanding, December 31, 2009	3,520,000	\$ 1.98		
Granted		\$		
Exercised		\$		
Forfeited		\$		
Expired		\$		
Balance Outstanding, March 31, 2010	3,520,000	\$ 1.98	2.6	\$ 6,768,625
Exercisable, March 31, 2010	3,520,000	\$ 1.98	2.6	\$ 6,768,625

**Table of Contents**

**GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2010**  
**(Unaudited)**

**Stock Incentive Plan and Stock Option Grants to Employees and Directors**

A summary of the Company's stock option activity during the three months ended March 31, 2010 is presented below:

	No. of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance Outstanding, December 31, 2009	3,222,000	\$ 0.94		
Granted		\$		
Exercised		\$		
Forfeited		\$		
Expired		\$		
Balance Outstanding, March 31, 2010	3,222,000	\$ 0.94	9.6	\$ 9,536,700
Exercisable, March 31, 2010	1,852,000	\$ 0.90	9.6	\$ 5,556,000

The Company expects all non-contingent outstanding employee stock options to eventually vest.

As of March 31, 2010, there were total unrecognized compensation costs related to nonvested share-based compensation arrangements of \$283,858, of which \$4,493 is expected to be recognized over a weighted-average period of 0.1 years and \$279,365 shall be recognized upon the satisfaction of a contingency.

**Other Stock-Based Option Awards to Nonemployees**

On July 30, 2008, as part of a secured promissory note, the Company granted an option to purchase, for a period of one year after the repayment of the loan and interest (which occurred on August 31, 2009), shares of common stock of the Company, up to a total of the amount of the note, interest paid on the note and a premium of \$40,000 (approximately \$280,000 in total), at a rate of \$1 per share. As of December 31, 2009, the option has not yet been exercised.

**Note 11. Concentrations****Concentration of Credit Risk**

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash and cash equivalents. Cash and cash equivalents are deposited in the local currency in two financial institutions in the United States. The balance, at any given time, may exceed Federal Deposit Insurance Corporation insurance limits. As of March 31, 2010 and December 31, 2009, there was \$3,864,116 and \$4,508,514, respectively, in excess of insurable limits.

**Note 12. Related Party Transactions**

On June 17, 2008, the Company entered into a loan agreement with Jack Speer, who was then a member of the Genesis Ltd. board of directors, for \$5,000. The note bore 4.29% interest and was due on June 17, 2018. The note was unsecured, not convertible and required accrued and unpaid interest to be paid at the termination of the loan. In September 2008, the Company paid Mr. Speer \$2,925 which was recorded as a reduction of the outstanding principal balance. In January 2010, principal and accrued interest on this note was paid in full.



**Table of Contents**

**GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2010  
(Unaudited)**

On August 9, 2007, the Company entered into a loan agreement with Michael Whaley, the former Chief Financial Officer of the Company, for \$50,000. The note originally bore an annual interest rate of 20 percent, which was later amended to 80 percent, and subsequently, in combination with his separation, was revised to a 15 percent interest rate and was due on November 5, 2007. The note does not have a conversion feature and is unsecured. Accrued and unpaid interest is due at maturity date of the loan. During 2008, \$37,500 had been repaid under the note. At March 31, 2010 and December 31, 2009, \$12,500 of principal plus accrued interest was due on the note. As Mr. Whaley is no longer a related party, this loan has been reclassified to notes payable on the accompanying condensed consolidated balance sheet as of March 31, 2010. On September 17, 2009, Michael Whaley, the former chief financial officer of the Company, resigned. As part of his separation agreement and in exchange for mutual releases, the Company is required to deliver the following to Mr. Whaley after completion of the Merger: (i) \$40,000 in cash, (ii) 30,000 shares of common stock of the Company, and (iii) payment of all amounts due under his loan agreement. As of March 31, 2010, all of the amounts due under the separation agreement were outstanding as the separation agreement is in dispute (See Note 9).

**Note 13. Subsequent Events**

On April 15, 2010, the Company cured a default regarding the registration rights agreement when the Company filed a registration statement covering the securities issued in the private placement.

In preparing these unaudited condensed consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the issuance date.

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

**Forward-Looking Statements**

The information in this report contains forward-looking statements. All statements other than statements of historical fact made in this report are forward looking. In particular, the statements herein regarding industry prospects and future results of operations or financial position are forward-looking statements. These forward-looking statements can be identified by the use of words such as believes, estimates, could, possibly, probably, anticipates, projects, expects, may, will, or should or other variations or similar words. No assurances can be given that the future results anticipated by the forward-looking statements will be achieved. Forward-looking statements reflect management's current expectations and are inherently uncertain. Our actual results may differ significantly from management's expectations.

The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements, included herewith. 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 of our management.

**Company Overview**

Genesis Fluid Solutions began operations in 1994 as a sole proprietorship owned by our founder, Michael Hodges and was incorporated in Colorado in 2005. We are engaged in the design and development of waterway restoration, mining, and paper mill (water) remediation technologies. Our patented Rapid Dewatering System (RDS) removes different types of debris, sediments, and contaminants from waterways and industrial sites, which assists in the recovery of lakes, canals, reservoirs and harbors. The RDS system separates water from the solid materials that are dredged, a process that is known as dewatering. Because of the scalability of the equipment, the small footprint required, and our own real-time rapid dewatering capabilities, RDS can remove thousands of cubic yards of sediment per day, and return clear water to waterways at rates of thousands of gallons per minute. We believe we accomplish this at significantly lower costs than our competitors.

Domestically, we have secured two contracts under which we will perform the work directly. These waterway dredging projects are due to begin in 2010. Our performance under such contracts is presently not anticipated to commence until September 2010 and October 2010, respectively, as the projects are currently completing permitting requirements.

**Results of Operations**

Our revenues are derived from professional services contracts to dewater dredged material, including fine-grained sediment, for lake and waterway restoration.

**Three Months Ended March 31, 2010 Compared with Three Months Ended March 31, 2009**

***Revenues***

The Company recognized no revenue for the three months ended March 31, 2010 and 2009. This is primarily due to the effects of accounting for revenues under the completed contract method whereby the company defers revenue until completion of the respective project. In addition, the two projects we currently have contracts for were delayed. The development of our business was further hindered by a general lack of private and public financing for the dewatering projects to which we market and sell our services.

**Table of Contents**

***Operating Expenses***

***Selling, General and Administrative Expenses***

Selling, general and administrative expenses were \$688,526 for the three months ended March 31, 2010 as compared to \$209,025 for the three months ended March 31, 2009, an increase of 229%. Utilizing the proceeds received from financing activities (see below), we began implementing our business plan and thus, our selling, general and administrative expenses increased accordingly. Our selling, general and administrative expenses consist of expenses paid for payroll and related costs, consultant and professional fees, research and development, marketing costs, patent costs, stock-based compensation, insurance, equipment maintenance, depreciation expense, and other general operating costs.

We expect our costs for personnel, consultants and other operating costs to increase as we implement our business plan. Thus, our selling, general and administrative expenses are likely to increase significantly in future reporting periods.

***Other Income (Expense)***

Other income (expense) for the three months ended March 31, 2010 was (\$531,434) compared to (\$141,534) for the three months ended March 31, 2009, an increase of 276%. The increase was primarily attributable to the change in the warrant derivative liability of \$462,140.

***Net Loss***

Net loss for the three months ended March 31, 2010 was \$1,220,760 compared to a net loss of \$350,559 for the three months ended March 31, 2009. The increased loss was attributable to an increase in selling, general and administrative expenses and the warrant derivative liability.

***Liquidity and Capital Resources***

Net cash used in operations during the three months ended March 31, 2010 totaled \$661,699 and resulted primarily from expanding our business to accommodate anticipated sales.

Net cash used in investing activities during the three months ended March 31, 2010 totaled \$46,060 and resulted from the purchase of property and equipment.

Net cash used in financing activities during the three months ended March 31, 2010 totaled \$33,730 and resulted primarily from payments on capital leases and a debt repayment.

At March 31, 2010, we had working capital of \$2,047,528, including \$4,132,423 in cash and cash equivalents. We had no revenue generating activities in the three months ended March 31, 2010 and are transitioning to a new business model. We anticipate revenue generating activities will ramp up in September 2010 as we begin to provide services under waterway dredging contracts. Our cash used in operating activities during the three months ended March 31, 2010 totaled \$661,699. Our unaudited consolidated financial statements were prepared assuming that we would continue as a going concern based on our recurring losses, accumulated deficits and negative cash flows from operations. We continue to experience net operating losses and negative cash flows from operating activities. Our ability to continue as a going concern is subject to our ability to generate profits and/or obtain necessary funding from outside sources, including by the sale of our securities, or obtaining loans from lenders, where possible. Our continued net operating losses increase the difficulty of our meeting these goals, and our efforts to continue as a going concern may not prove successful. Nonetheless, the Company expects that it has sufficient cash and borrowing capacity to meet its working capital needs for at least the next 12 months.

**Table of Contents**

Historically, we have financed our working capital and capital expenditure requirements primarily from notes payable and the sales of our equity securities. We may seek additional equity and/or debt financing in order to implement our business plan. We completed a Private Placement, commencing October 30, 2009 through December 29, 2009, whereby we received net proceeds of \$5,909,750, which we believe will fund our operations at least through March 2011. We do not have any lines of credit or borrowing facilities to meet our cash needs. As a result, we may not be able to continue as a going concern, without further financing, following March 2011. It is reasonably possible that we will not be able to obtain sufficient financing to continue operations. Furthermore, any additional equity or convertible debt financing will be dilutive to existing shareholders and may involve preferential rights over common shareholders. Debt financing, with or without equity conversion features, may involve restrictive covenants.

***Related Party Transactions***

No related party transactions had a material impact on our operating results for the three months ended March 31, 2010. See Notes 8 and 12 to our consolidated financial statements.

***New Accounting Pronouncements***

See Note 2 to our unaudited consolidated financial statements for a discussion of recently issued accounting pronouncements.

***Critical Accounting Estimates***

Management's discussion and analysis of financial condition and results of operations is based upon our unaudited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these unaudited consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and assumptions, including, but not limited to, those related to the estimates of depreciable lives and valuation of property and equipment, valuation of derivatives, valuation of payroll tax contingencies, valuation of share-based payments, and the valuation allowance on deferred tax assets.

***Off-Balance Sheet Arrangements***

Since our inception, except for standard operating leases, we have not engaged in any off-balance sheet arrangements, including the use of structured finance, special purpose entities or variable interest entities.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

N/A

**ITEM 4T. CONTROLS AND PROCEDURES.**

*Evaluation of Disclosure Controls and Procedures.* Under the supervision and with the participation of our management, including our President, Chief Financial Officer and Secretary, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) as of the end of the period covered by this report. Based upon that evaluation, our President, Chief Financial Officer and Secretary concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective such that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

**Table of Contents**

*Changes in Internal Control Over Financial Reporting.* During the most recent quarter ended March 31, 2010, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) ) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II**

**ITEM 1. LEGAL PROCEEDINGS.**

From time to time, the Company may become involved in litigation relating to claims arising out of its operations in the normal course of business. Except as described below, we are not involved in any pending legal proceeding or litigation and, to the best of our knowledge, no governmental authority is contemplating any proceeding to which we are a party or to which any of our properties is subject, which would reasonably be likely to have a material adverse effect on the Company.

On May 27, 2008, Eagle North America, Inc. ( Eagle ), which provided certain equipment and consulting services to the Company, filed suit against Genesis Fluid Solutions and its chief executive officer and director Michael Hodges for monies owed pursuant to an equipment lease agreement between Eagle and the Company. Eagle claimed damages of \$152,103.28. The Company made counter claims against Eagle for a breach of representations and warranties and alleged damages related to the performance and operation of certain leased equipment and losses incurred as a result of its inadequate operation and maintenance of approximately \$280,000. The two parties entered mediation in November 2008.

On June 26, 2009, the parties entered into a settlement agreement under which Eagle dismissed its claims against the Company, and the Company dismissed its claims against Eagle. The settlement agreement provided that the Company was to pay Eagle the sum of \$152,000 payable as follows:

\$25,000.00 within thirty days of the settlement, and

thereafter 15 equal installments of \$8,466.67 beginning on August 26, 2009

As of May 20, 2010, the Company has on a timely basis made all payments to date required by the settlement agreement.

In September 2006, the Company's predecessor may have entered into a five year exclusive license agreement with an entity located in the Netherlands (the Entity ) to complete projects and develop the revenues and marketing presence of the Company in the Netherlands, France, and Germany. Each party has alleged certain damages and defenses as a result of the project. However, the amounts or responsibilities of either party for damages are not capable of being ascertained. As of March 31, 2010, no formal legal claim had been filed with any jurisdiction by either party.

On or about March 31, 2010, the Company's registered agent for service of process in Delaware forwarded a partial Summons and Complaint to the Company. The action appears to be pending before the Supreme Court, New York County. We understand the service agent was served with an incomplete Summons and Complaint, i.e., missing pages. We requested a copy of the Court file. Big Fuel Communications, LLC seeks \$41,250 in damages under various theories of recovery: breach of contract, quantum merit and unjust enrichment, for services allegedly rendered to Genesis Fluid Solutions. The Company disputes the plaintiff's allegations.

**ITEM 1A. RISK FACTORS.**

N/A

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

On March 19, 2010, we issued 83,000 shares of our common stock to an individual who had provided certain consulting services to the Company. The shares were issued in a transaction that was exempt from the registration requirements of the Securities Act pursuant to Section 4(2) of the Securities Act, which exempts transactions by an issuer not involving a public offering.



**Table of Contents**

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None

**ITEM 4. RESERVED.**

**ITEM 5. OTHER INFORMATION.**

None

**Table of Contents**

**ITEM 6. EXHIBITS.**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
31.1	Section 302 Certification of Principal Executive Officer
31.2	Section 302 Certification of Principal Financial Officer
32.1	Section 906 Certification of Principal Executive Officer and Principal Financial Officer

**Table of Contents**

**SIGNATURES**

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

**GENESIS FLUID SOLUTIONS HOLDINGS, INC.**

Date: May 21, 2010

By: /s/ Michael Hodges  
Michael Hodges  
Chairman and Interim Chief Executive Officer  
(Principal Executive Officer and Principal  
Financial Officer)