GOLDSPRING INC
Form 10QSB/A
August 08, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB/A
AMENDMENT NO. 2

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2006

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File No. 000-32429

GOLDSPRING, INC.
(Exact name of small business issuer as specified in its charter)

FLORIDA	7389	65-0955118
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

P.O. Box 1118
Virginia City, NV 89440
(775) 847-5272
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Check whether the issuer (1) has 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 issuer was required to file such reports), and (2)has been subject to such filing requirements for the past 90 days.
Yes x No o

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 the issuer's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-QSB or any amendment to this Form 10-QSB x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b2 of the Exchange Act). o Yes x No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the last practicable date: 637,614,495 shares of Common Stock, $0.000666 Par Value per share, as of April 30, 2006.

TABLE OF CONTENTS

Statement Regarding Forward-Looking Statements

The statements contained in this report on Form 10-QSB that are not purely historical are forward-looking statements within the meaning of applicable securities laws. Forward-looking statements include statements regarding our "expectations," "anticipation," "intentions," "beliefs," or "strategies" regarding the future. Forward looking statements include statements regarding fluctuations in the price of gold or certain other commodities, (such as silver, copper, diesel fuel, and electricity); changes in national and local government legislation, taxation, controls, regulations and political or economic changes in the United States or other countries in which we may carry on business in the future; business opportunities that may be presented to or pursued by us; our ability to integrate acquisitions successfully; operating or technical difficulties in connection with exploration or mining activities; the speculative nature of gold exploration, including risks of diminishing quantities or grades of reserves; and contests over our title to properties. All forward-looking statements included in this report are based on information available to us as of the filing date of this report, and we assume no obligation to update any such forward-looking statements. Our actual results could differ materially from the forward-looking statements. Among the factors that could cause actual results to differ materially are the factors discussed in Item 1, "Business - Risk Factors" in our Form 10-KSB for the year ended

December 31, 2005.

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

GOLDSPRING, INC.
CONDENSED CONSOLIDATED BALANCE SHEET

		March 31, 2006 (Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$	101,893
Accounts receivable, net		199,286
Prepaid expenses and other current assets		81,600
Inventories		0
Deferred financing fees, net		395,326
TOTAL CURRENT ASSETS		778,105
PLANT, EQUIPMENT, MINE DEVELOPMENT, AND MINERAL PROPERTIES, NET:		
Mineral properties		1,669,837
Plant, Equipment, Mine Development		934,216
TOTAL PROPERTY AND EQUIPMENT		2,604,053
OTHER ASSETS:		
Reclamation deposit		377,169
Other		0
TOTAL OTHER ASSETS		377,169
TOTAL ASSETS	$	3,759,327

The accompanying notes are an integral part of these financial statements

F-1

LIABILITIES AND SHAREHOLDERS' DEFICIENCY

CURRENT LIABILITIES		
Accounts Payable	$	396,545
Accrued Expenses		1,187,926
Accrued liquidated damages		1,913,418
Accrued interest		1,092,810
Short-Term Lease Obligations		28,870
Current portion of long-term debt		14,039,258
TOTAL CURRENT LIABILITIES		18,658,827
LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES		
Long-term debt, net of current portion		128,328
Long-term Lease obligation, net of current portion		69,572
Long-term Asset retirement obligations		553,190
TOTAL LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES		751,090
TOTAL LIABILITIES	$	19,409,917
SHAREHOLDERS' DEFICIT		
Common stock, $.000666 par value, 800,000,000 shares authorized , 537,197,775 shares issued and outstanding	$	357,774
Treasury Stock		(67)
Additional paid-in capital		8,533,138
Accumulated deficit - Prior years		(23,524,302)
Accumulated deficit - Current year		(1,017,133)
TOTAL SHAREHOLDERS’ DEFICIENCY		(15,650,590)
TOTAL LIABILITIES AND SHAREHOLDERS’ DEFICIENCY	$	3,759,327

The accompanying notes are an integral part of these financial statements

GOLDSPRING, INC.
CONDENSED STATEMENTS OF OPERATIONS
For the three month period ended March 31,

	2006 (Unaudited)	2005 (Restated)
REVENUE FROM GOLD SALES, NET	$ 537,806	$ 512,091
COSTS AND EXPENSES		
Costs Applicable to sales (exclusive of depreciation, and amortization shown separately below)	-	-
Depletion, depreciation and amortization	150,024	75,787
Exploration	425,776	1,269,721
General and administrative	180,073	323,433
Consulting and professional services	154,817	465,088
TOTAL COSTS AND EXPENSES	910,690	2,134,029
OTHER INCOME (EXPENSE)		
Other (See Note 6)	-	(1,874,633)
Gain on sale of fixed assets	105,397	-
Interest expense	(749,646)	(255,109)
Interest income	-	13,521
	(644,249)	(2,116,221)
NET LOSS	(1,017,133)	(3,738,159)
Net loss per common share - basic	$ (0.002)	$ (0.022)
Basic weighted average common shares outstanding	418,221,956	173,379,180

The accompanying notes are an integral part of these financial statements

GOLDSPRING, INC.
CONDENSED STATEMENTS OF CASH FLOWS

For the three month period ended March 31,

	2006 (Unaudited)	2005 (Restated)
Cash flows from operating activities:		
Net loss	$ (1,017,133)	$ (3,738,159)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, depletion, and amortization	226,848	75,787
Liquidated damages from November 2004 restructuring converted into common stock	-	1,874,633
(Increase) Decrease in operating assets:		
Finished goods inventory	52,000	181,955
Inventory	-	(41,377)
Prepaid and other current assets	(54,100)	(26,096)
Accounts receivable	(199,286)	-
Increase (decrease) in operating liabilities:		
Accounts payable	(870,529)	53,952
Accrued expenses	827,040	56,135
Accrued interest	(229,109)	-
Asset retirement obligation	-	33,500
Other	999,486	351,728
Total Adjustments to Reconcile Net Loss Used in Operating Activities	752,350	2,560,217
Net cash used in operating activities	(264,783)	(1,177,942)
Investing activities:		
Equipment deposit	-	10,000
Acquisition of plant, equipment and mineral properties	-	(48,380)
Net cash used in investing activities	-	(38,380)
Financing activities:		
Proceeds from financing, net	400,000	-
Principal payment Note Payable	(60,189)	(115,175)
Net Cash flows provided by financing activities	339,811	(115,175)
Net Increase (Decrease) in cash	75,028	(1,331,497)
Cash - beginning of period	26,865	1,951,802
Cash - end of period	$ 101,893	$ 620,305
Supplemental disclosures of non-cash investing and financing activities:		
Issuance of notes for liquidated damages for failure to deliver shares	$ -	403,175
Issuance of notes for mandatory redemption payment (See Note C)	$ -	$ 6,885,184
Purchase and cancellation of common stock in connection with mandatory redemption payment (See Note C)	$ -	$ 6,801,975
Conversion of debt into common shares	2,320,841	
Issuance of common stock for interest expense	955,259	

The accompanying notes are an integral part of these financial statements

GOLDSPRING, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2006 AND 2005

NOTE 1 - DESCRIPTION OF BUSINESS, GOING CONCERN, MANAGEMENT PLANS AND BASIS OF PRESENTATION

Description of Business

We are a North American precious metals mining company with an operating gold and silver test mine in northern Nevada. Our Company was formed in mid-2003, and we acquired the Plum property in November 2003. In our relatively short history, we secured permits, built an infrastructure and brought the Plum exploration project into test mining production. During 2005, we acquired additional properties around the Plum project in Northern Nevada, expanding our footprint and creating opportunities for exploration. We are an emerging company, looking to build on our success through the acquisition of other mineral properties in North America with reserves and exploration potential that can be efficiently put into near-term production. Our objectives are to increase production; increase reserves through exploration and acquisitions; expand our footprint at the Plum mine; and maximize cash flow and the return for our shareholders. We were incorporated in the state of Florida effective October 19, 1999 under the name of Click and Call, Inc.. On June 7, 2000, we filed an amendment to our Articles of Incorporation changing our name to STARTCALL.COM, INC. On March 10, 2003, we changed our name to GoldSpring, Inc. The primary nature of our business is the exploration and development of mineral producing properties.

Going Concern

The financial statements are presented on the basis that our company is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business over a reasonable length of time. We have incurred operating losses since its inception. This condition raises substantial doubt as to our ability to continue as a going concern.

Management Plans

Our plans for the continuation of our company as a going concern include developing our Plum Mine into a profitable operation and potentially supplementing financing of our operations through sales of our unregistered common stock and borrowings from affiliates and other shareholders. There are no assurances, however, with respect to the future success of these plans. The financial statements do not contain any adjustments, which might be necessary, if we are unable to continue as a going concern.

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Article 10 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. For further information, refer to the financial statements and footnotes thereto included in our Form 10-KSB Report for the fiscal year ended December 31, 2005.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Forward-Looking Statements

The following discussion contains, in addition to historical information, forward-looking statements regarding GoldSpring, Inc. (“we,” the "Company," or "GSPG"), that involve risks and uncertainties. Our actual results could differ materially. For this purpose, any statements contained in this Report that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," or "continue" or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements. Factors that could cause or contribute to such differences include possible need for additional financing; dependence on management; government regulation; and other factors discussed in this report and the Company's other filings with the Securities and Exchange Commission.

Summarized below are the significant accounting policies of GoldSpring, Inc. (“we,” “GoldSpring,” or the “Company”) Unless otherwise indicated, amounts provided in these notes to the financial statements pertain to continuing operations.

Principles of Consolidation

The consolidated financial statements include the accounts of our company and its wholly owned subsidiaries. All material inter-company transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

We consider all highly liquid debt securities purchased with original or remaining maturities of three months or less to be cash equivalents. The carrying value of cash equivalents approximates fair value.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair market value because of the short maturity of those instruments. Furthermore, convertible debenture and other notes payable amounts approximate fair value at March 31, 2006 and 2005. Pursuant to EFIT No. 0027 “Application of Issue No. 98-5 to Certain Convertible Instruments” we were required allocate value to the warrant issued with the debenture, and to record a discount on the debenture for its conversion feature. We are in default on these convertible debentures and thus have recorded these notes at face value.

Credit Risk

It is our practice to place our cash equivalents in high-quality money market securities with a major banking institution. Certain amounts of such funds are not insured by the Federal Deposit Insurance Corporation. However, we consider our credit risk associated with cash and cash equivalents to be minimal.

Impairment of Long Lived Assets and Long Lived Assets to be Disposed Of

In August 2001, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 144 “Accounting for the Impairment or Disposal of Long-Lived Assets,” which supersedes both SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of” and the accounting and reporting provisions of Accounting Practice Bulletin (“APB”) Opinion No. 30, “Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and

Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that opinion).This statement establishes the accounting model for long-lived assets to be disposed of by sale and applies to all long-lived assets, including discontinued operations. This statement requires those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred.

SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. We adopted SFAS No. 144 in our evaluation of the fair value of certain assets described in these financial statement footnotes.

Inventories

We state inventories at the lower of average cost or net realizable value. At March 31, 2006 and 2005, our inventories consisted of $0 and $106,732, respectively, of doré and bullion in our accounts at refineries. At March 31, 2005 we had $0 of supplies and reagents compared to $41,377at March 31, 2006. We were unable to estimate our in-process inventories at March 31, 2005, as our gold production processes are still in their inception stage, and we do not yet have sufficient data available to accurately calculate in-process inventory. We value inventories at the lower of full cost of production or net realizable value based on current metals prices. We determine net realizable value by estimating value based on current metals prices, less cost to convert stockpiled and in-process inventories to finished products.

Revenue Recognition

Sales of gold and silver dore are recorded when title and risk of loss transfer to the refiner at current spot metals prices. Sales are calculated based upon assay of the dore’s precious metal content and its weight. Recorded values are adjusted upon final settlement from the refiner that usually occurs within 24 days of delivery. If we have reason to believe that the final settlement will materially affect our recognition of revenue because of a difference between the refiner’s assay of precious metals contained in the dore and ours, we establish a reserve against the sale.

Stock Issued For Services

We base the value of stock issued for services on the market value of our common stock at the date of issue or our estimate of the fair value of the services received, whichever is more reliably measurable.

Deferred Financing Charges

During the first quarter of 2006 we recorded deferred financing charges associated with the issue of promissory notes payable totaling $0. We amortize the charges over the respective lives of the promissory notes payable as interest expense. During the quarter ended March 31, 2006 we recognized $76,824 of interest expense related to the amortization of deferred financing fees.

Plant and Equipment

We state plant and equipment at cost. We provide depreciation and amortization in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives or productive value.

We capitalize expenditures for renewals and improvements that significantly extend the useful life of an asset. We charge expenditures for maintenance and repairs to operations when incurred. When assets are sold or retired, the cost of the asset and the related accumulated depreciation are removed from the accounts and any gain or loss is recognized at such time. We use the straight-line method of depreciation for financial reporting purposes, depreciating assets over useful lives ranging from 3 to 7 years.

We review the carrying value of our plant and equipment assets on a quarterly basis. Where information and conditions suggest impairment, we write down these assets to net recoverable amount, based on estimated future cash flows that may be attained from them.

F-7

Mineral Properties

We defer acquisition costs until we determine the viability of the property. Since we do not have proven and probable reserves as defined by Industry Guide 7, exploration expenditures are expensed as incurred.

We expense holding costs to maintain a property on a care and maintenance basis as incurred.

We review the carrying value of our interest in each property on a quarterly basis to determine whether an impairment has incurred in accordance with the Financial Accounting Standards Board (FASB) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.”

Where information and conditions suggest impairment, we write down these properties to net recoverable amount, based on estimated future cash flows. Our estimate of gold price, mineralized materials, operating capital, and reclamation costs are subject to risks and uncertainties affecting the recoverability of our investment in property, plant, and equipment. Although we have made our best estimate of these factors based on current conditions, it is possible that changes could occur in the near term that could adversely affect our estimate of net cash flows expected to be generated from our operating properties and the need for possible asset impairment write-downs.

Where estimates of future net operating cash flows are not available and where other conditions suggest impairment, we assess if carrying value can be recovered from net cash flows generated by the sale of the asset or other means.

We carry our property acquisition and capitalized plant and equipment costs at cost less accumulated amortization and write-downs.

Reclamation Liabilities and Asset Retirement Obligations

Minimum standards for site reclamation and closure have been established by various government agencies that affect certain of our operations. We calculate our estimates of reclamation liability based on current laws and regulations and the expected undiscounted future cash flows to be incurred in reclaiming, restoring, and closing our operating mine sites. When we incur reclamation liabilities that are not be related to asset retirements we recognize the obligations in accordance with Statement of Position No. 96-1.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143, “Accounting for Asset Retirement Obligations.”

SFAS 143 established a uniform methodology for accounting for estimating reclamation and abandonment costs. The Standard requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred. SFAS No. 143 requires us to record a liability for the present value of our estimated environmental remediation costs and the related asset created with it when a recoverable asset (long-lived asset) can be realized. In our case, the long-lived asset is directly related to the mining infrastructure costs being expensed by our Company. Since we do not yet have proven or probable reserves as defined by Industry Guide 7, and in accordance with FASB No. 143 our asset retirement obligation was expensed directly to reclamation expense.

Earnings Per Common Share

In calculating earnings per common share, we compute basic earnings per share by dividing net loss by the weighted average number of common shares outstanding, excluding the dilutive effects of common stock equivalents. For the periods ended March 31, 2006 and 2005, we had net losses for which the affect of common stock equivalents would be anti-dilutive, accordingly only basic loss per share is presented.

Recent Authoritative Pronouncements

F-8

On December 16, 2004, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards, or Statement, No. 123 (revised 2004), Share-Based Payment ("Statement 123(R)"), which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation ("Statement 123"). Statement 123(R) supersedes Accounting Principles Board Opinion No. 25 ("APB 25"), Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. Statement 123(R) requires that all share-based payments to employees, including grants of employee stock options, be recognized in the income statement based on their fair values. Pro forma disclosure is no longer permitted. Statement 123(R) is effective for small business issuers at the beginning of the first interim or annual period beginning after December 15, 2005. As permitted by Statement 123, we currently account for share-based payments to employees using APB 25's intrinsic value method. We adopted Statement 123(R) on January 1, 2006 using the modified prospective method.

In November 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) 151, "Inventory Costs - an amendment of ARB No. 43, Chapter 4." SFAS 151 seeks to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) in the determination of inventory carrying costs. The statement requires such costs to be treated as a current period expense. This statement is effective November 1, 2005 for the Company. The Company does not believe that the adoption of SFAS 151 will have a significant impact on its consolidated financial statements.

In May 2005, the FASB issued SFAS 154, "Accounting Changes and Error Corrections - a Replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS 154 requires retrospective application to prior period financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also redefines "restatement" as the revising of previously issued financial statements to reflect the correction of an error. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 (or fiscal 2007 for the Company). The Company does not believe that the adoption of SFAS 154 will have a significant impact on its consolidated financial statements.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenditures during the reported periods. Actual results could differ materially from those estimates. Estimates may include those pertaining to the estimated useful lives of property and equipment and software, determining the estimated net realizable value of receivables, and the realization of deferred tax assets.

Risks and Uncertainties

We regularly evaluate risks and uncertainties and, when probable that a loss or expense will be incurred, record a charge to current period operations.

Income Taxes

We recognize deferred tax assets and liabilities based on differences between the financial reporting and tax bases of assets and liabilities using the enacted tax rates and laws that are expected to be recovered. We provide a valuation allowance for deferred tax assets for which we do not consider realization of such assets to be more likely than not.

NOTE 3 - NOTES PAYABLE STOCKHOLDERS

As of March 31, 2006, the Company is in default of the terms on an outstanding note payable with several of its note holders with principal balance due of $13,291,150 and accrued interest of $1,069,629.

NOTE 4 - COMMON STOCK

During the three months ended March 31, 2006, the Company issued 212,150,563 shares of common stock valued at $3,276,100 in connection with the partial conversion of principal and interest of certain convertible debentures (see Note _7_).

NOTE 5 - WARRANTS

Transactions involving warrants are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance - January 1, 2006	27,751,639	$ 0.20
Warrants issued during the period	0	
Warrants expired during the period	0	
Warrants exercised during the period	0	
Balance - March 31, 2006 (all exercisable)	27,751,639	$ 0.20

NOTE 6 - OTHER ITEMS

LIQUIDATED DAMAGES

For the first quarter of 2005 (ended March 31, 2005), we recorded liquidated damages expenses due to investors of our March 2004 offering and subsequent November 30, 2004 restructuring as follows:

Liquidated damages relating to:	
November 30, 2004 Non-Registration Provisions	$ 1,776,104
Failure to timely deliver shares upon notice of converting note holders	98,529
	$ 1,874,633

These liquidated damages ceased in October 2005 when our Registration Statement was declared effective.

Non-Registration Provisions

Our November 2004 subscription agreement required us to file a registration statement with the Securities and Exchange Commission no later than December 30, 2004 and to cause the registration statement to be declared effective no later than February 14, 2005. Our former Chief Executive Officer withdrew our pending registration statement and did not submit a new registration statement during the period of his purported control of our company. His failure to submit the registration statement to the SEC by December 30, 2004 triggered liquidated damages to accrue under the November 2004 subscription agreement. Accordingly, at December 31, 2004, we had accrued $222,013 of liquidated damages relating to Non-Registration Provisions. The liquidated damages continued to accrue in the amount of $222,013 for each 30-day period after December 30, 2004 until our registration statement was declared effective in October 2005.

Failure to Timely Deliver Conversion Shares