GEOSPATIAL HOLDINGS, INC.
Form 10-Q/A
October 09, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

Amendment No. 1

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

FOR THE QUARTERLY PERIOD ENDED: JUNE 30, 2009

OR

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

COMMISSION FILE NUMBER: 333-04066

GEOSPATIAL HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

NEVADA	**87-0554463**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

229 Howes Run Road, Sarver, PA 16055

(Address of principal executive offices)

(724) 353-3400

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x 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 the 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	¨ *(Do not check if a smaller reporting company)*	Smaller reporting company	x

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

The number of $.001 par value common shares outstanding at August 4, 2009: 25,729,444.

Explanatory Note

We are filing this Form 10-Q/A in response to a comment letter received from the Securities and Exchange Commission (the Commission) on September 3, 2009 regarding the Form 10-Q filed with the Commission on August 14, 2009. We are making revisions to the following sections: Front Cover Page, Controls and Procedures, Exhibit 31.1, and Exhibit 31.2 .

This Form 10-Q/A continues to speak as of the date of the Form 10-Q and no attempt has been made to modify or update disclosures in the original Form 10-Q except as noted above. This Form 10-Q/A does not reflect events occurring after the filing of the Form 10-Q or modify or update any related disclosures, and information not affected by this amendment is unchanged and reflects the disclosure made at the time of the filing of the Form 10-Q with the SEC. In particular, any forward-looking statements included in this form 10-Q/A represent management s view as of the filing date of the Form 10-Q.

Accordingly, this amendment should be read in conjunction with the Company s other filings made with the SEC subsequent to the filing date of the original Form 10-Q.

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FORWARD-LOOKING STATEMENT NOTICE

When used in this report, the words may, will, expect, anticipate, continue, estimate, project, intend, and similar expressions, which historical, constitute Forward Looking Statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the expectations, beliefs, intentions or strategies for the future. We intend that such Forward-Looking Statements regarding events, conditions, and financial trends that may affect the Company s future plans of operations, business strategy, operating results, and financial position be subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Persons reviewing this report are cautioned that any Forward-Looking Statements are not guarantees of future performance and are subject to risks and uncertainties and that actual results may differ materially from those included within the Forward-Looking Statements as a result of various factors. Such factors include general economic factors and conditions that may directly or indirectly impact the Company s financial condition or results of operations. Readers are cautioned not to place undue reliance on these Forward-Looking Statements that speak only as of the date the statement was made.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GEOSPATIAL HOLDINGS, INC.

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Geospatial Holdings, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

	June 30, 2009 (Unaudited)	December 31, 2008*
ASSETS		
Current assets:		
Cash and cash equivalents	$ 27,491	$ 42,793
Accounts receivable, net of allowance for doubtful accounts of $10,000 at June 30, 2009 and December 31, 2008	70,639	51,271
Costs and estimated earnings in excess of billings on uncompleted contracts	39,309	11,479
Notes receivable	382,047	361,612
Prepaid expenses	195,513	188,358
Total current assets	714,999	655,513
Property and equipment:		
Field equipment	915,304	905,635
Office equipment	103,102	99,616
Vehicles	17,530	17,530
Total property and equipment	1,035,936	1,022,781
Less: accumulated depreciation	(406,565)	(330,209)
Net property and equipment	629,371	692,572
Other assets:		
License fees	1,367,000	1,367,000
Deposit on equipment	100,000	
Total other assets	1,467,000	1,367,000
Total assets	$ 2,811,370	$ 2,715,085
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 850,191	$ 710,493
Accrued expenses	638,303	105,168
Billings in excess of costs and estimated earnings on uncompleted contracts	10,709	25,159
Due to stockholder	19,500	32,500
Notes payable to stockholders	2,883,705	2,118,808
Total current liabilities	4,402,408	2,992,128
Stockholders equity (deficit):		

Preferred Stock, $.001 par value; 5,000,000 shares authorized and no shares issued and outstanding at June 30, 2009 or December 31, 2008		
Common Stock, $.001 par value; 100,000,000 shares authorized at March 31, 2009 and December 31, 2008; 24,919,444 and 23,759,806 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	24,919	23,760
Additional paid-in capital	8,026,590	7,270,611
Accumulated deficit	(9,642,547)	(7,571,414)
Total stockholders equity (deficit)	(1,591,038)	(277,043)
Total liabilities and stockholders equity (deficit)	$ 2,811,370	$ 2,715,085

* Condensed from audited financial statements.

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

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Geospatial Holdings, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

	For the Three Months Ended June 30, 2009	For the Three Months Ended June 30, 2008	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008
Sales	$ 186,286	$ 366,888	$ 256,479	$ 1,314,428
Cost of sales	174,327	132,648	281,384	427,085
Gross profit	11,959	234,240	(24,905)	887,343
Selling, general and administrative expenses	1,047,296	1,676,167	1,961,808	2,225,636
Loss from operations	(1,035,337)	(1,441,927)	(1,986,713)	(1,338,293)
Other income (expense):				
Interest income	7,587	4,654	15,035	7,961
Interest expense	(54,342)	(2,774)	(100,788)	(6,344)
Other income	50	171	1,333	171
Gain (loss) on foreign currency exchange		10,762		(163,449)
Total other income and expenses	(46,705)	12,813	(84,420)	(161,661)
Net loss before income taxes	(1,082,042)	(1,429,114)	(2,071,133)	(1,499,954)
Provision for (benefit from) income taxes				
Net loss	$ (1,082,042)	$ (1,429,114)	$ (2,071,133)	$ (1,499,954)
Basic and fully-diluted net loss per share of Common Stock	$ (0.04)	$ (0.06)	$ (0.09)	$ (0.07)

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

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Geospatial Holdings, Inc. and Subsidiaries

Condensed Consolidated Statement of Changes in Stockholders Equity

For the Six Months Ended June 30, 2009

(Unaudited)

	Preferred Stock		Common Stock		Additional Paid-In	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance, December 31, 2008		$	23,759,806	$ 23,760	$ 7,270,611	$ (7,571,414)	$ (277,043)
Issuance of Common Stock for cash at $1.00 per share			250,000	250	249,750		250,000
Issuance of Common Stock for cash at $0.50 per share			805,000	805	401,695		402,500
Issuance of Common Stock in settlement of note at $1.00 per share			104,638	104	104,534		104,638
Net loss for the six months ended June 30, 2009						(2,071,133)	(2,071,133)
Balance, June 30, 2009		$	24,919,444	$ 24,919	$ 8,026,590	$ (9,642,547)	$ (1,591,038)

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

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Geospatial Holdings, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Six Months Ended June 30, 2009	2008
Cash flows from operating activities:		
Net loss	$ (2,071,133)	$ (1,499,954)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	76,356	74,989
Rent expensed through increase in due to stockholder	39,000	
Accrued interest receivable	(14,989)	(7,893)
Accrued interest payable	99,535	5,507
Issuance of Common Stock for reverse acquisition		316,226
Changes in operating assets and liabilities:		
Accounts receivable	(19,368)	(80,580)
Costs and estimated earnings in excess of billings on uncompleted contracts	(27,830)	(4,493)
Prepaid expenses	(7,155)	(46,058)
Accounts payable	139,698	382,788
Accrued expenses	533,135	65,326
Billings in excess of costs and estimated earnings on contracts in progress	(14,450)	4,843
Net cash used in operating activities	(1,267,201)	(789,299)
Cash flows from investing activities:		
Purchase of property and equipment	(13,155)	(34,811)
Deposit on equipment	(100,000)	(1,545,740)
Notes receivable issued	(5,446)	(155,000)
Net cash used in investing activities	(118,601)	(1,735,551)
Cash flows from financing activities:		
Proceeds from sale of Common Stock	652,500	1,215,000
Net borrowings from stockholders	718,000	1,200,000
Payments on stock subscriptions		50,000
Net cash provided by financing activities	1,370,500	2,465,000
Net change in cash and cash equivalents	(15,302)	(59,850)
Cash and cash equivalents at beginning of period	42,793	183,448
Cash and cash equivalents at end of period	$ 27,491	$ 123,598
Supplemental disclosures:		
Cash paid during period for interest		$ 819

Cash paid during period for income taxes		
Non-cash transactions:		
Issuance of Common Stock in settlement of liabilities	104,639	903,469
Issuance of Common Stock for reverse acquisition		316,226
Reclassification of due to stockholder to note payable to stockholder	52,000	

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

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Geospatial Holdings, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2009

Note 1 Basis of Presentation

On April 25, 2008, Kayenta Kreations, Inc. (Kayenta) acquired all the outstanding Common Stock of Geospatial Mapping Systems, Inc. (GMSI) pursuant to an Agreement and Plan of Merger (the Merger Agreement) dated March 25, 2008. Upon consummation of the Merger Agreement, GMSI became a fully-owned subsidiary of Kayenta, which was subsequently renamed Geospatial Holdings, Inc. (the Company). Because GMSI s stockholders owned the majority of the Company upon consummation of the Merger Agreement, GMSI was deemed to be the acquiring entity. Accordingly, all historical financial information prior to the consummation of the Merger Agreement contained in these Unaudited Condensed Consolidated Financial Statements is that of GMSI.

The Unaudited Condensed Consolidated Financial Statements included herein have been prepared by the Company in accordance with generally accepted accounting principles for interim financial information and regulations contained in the Securities Exchange Act of 1934, as amended. Accordingly, the accompanying Unaudited Condensed Consolidated Financial Statements do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. The accompanying Unaudited Condensed Consolidated Financial Statements as of and for the six months ended June 30, 2009 should be read in conjunction with the Company s Financial Statements as of and for the year ended December 31, 2008. In the opinion of the Company s management, all adjustments considered necessary for a fair statement of the accompanying Unaudited Condensed Consolidated Financial Statements have been included, and all adjustments, unless otherwise discussed in the Notes to the Unaudited Condensed Consolidated Financial Statements, are of a normal and recurring nature. Operating results for the three and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

The use of accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

From GMSI s inception on May 26, 2006 through December 31, 2007, the Company was considered a development stage company as defined by Statement of Financial Accounting Standards No. 7, *Accounting and Reporting by Development Stage Enterprises*. As such, the Company devoted substantially all its efforts to establishing a new business. During 2008, the Company began to generate revenues from its planned operations, and ceased to be a development stage company.

The Condensed Consolidated Financial Statements include the accounts of the Company and its subsidiaries, GMSI and Geospatial Pipeline Services, LLC. All intercompany accounts and transactions have been eliminated.

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Geospatial Holdings, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2009

Note 2 Merger

On April 25, 2008, Kayenta acquired all the outstanding Common Stock of GMSI pursuant to the Merger Agreement.

Pursuant to the Merger Agreement, Kayenta shareholders approved a 2.8 for 1 forward stock split, resulting in 3,685,618 shares of Kayenta Common Stock outstanding at the closing of the Merger Agreement. Further, Kayenta issued one share of Kayenta s Common Stock in exchange for each outstanding share of GMSI s Common Stock, resulting in 20,074,188 shares of Kayenta Common Stock, for a total aggregate number of shares of Kayenta Common Stock of 23,759,806 outstanding upon consummation of the merger. Upon consummation of the merger, GMSI became a fully-owned subsidiary of Kayenta, which was subsequently renamed Geospatial Holdings, Inc., and GMSI s shareholders obtained majority ownership of the shares of Common Stock of Geospatial Holdings, Inc. After the merger, GMSI s former stockholders owned approximately 84.5% of the Common Stock of the Company, and Kayenta s stockholders owned approximately 15.5% of the Common Stock of the Company.

In accordance with Accounting and Financial Reporting Interpretations and Guidance issued by the staff of the United States Securities and Exchange Commission, the merger was accounted for as a recapitalization. Accordingly, all consideration paid and costs incurred pursuant to the merger were charged to expense, and no goodwill or other intangible asset was recorded. All historical financial information prior to the consummation of the Merger Agreement is that of GMSI. Kayenta s results of operations have been included in the Company s Consolidated Statements of Operations since the completion of the merger on April 25, 2008.

Prior to the merger, Kayenta was a public shell company as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended. The acquisition was undertaken to provide the Company a public shell.

Note 3 Accounts Receivable

Accounts receivable consisted of the following at June 30, 2009:

Billed:	
Completed contracts	$ 36,158
Contracts in progress	44,481
	80,639
Less: allowance for doubtful accounts	(10,000)
	$ 70,639

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Geospatial Holdings, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2009

Note 4 Uncompleted Contracts

Costs, estimated earnings, and billings on uncompleted contracts are summarized as follows at June 30, 2009:

Costs incurred on uncompleted contracts	$ 143,712
Estimated earnings	56,876
	200,588
Billings to date	(171,988)
	$ 28,600

Included in the accompanying balance sheet under the following captions:

Costs and estimated earnings in excess of billings on uncompleted contracts	$ 39,309
Billings in excess of costs and estimated earnings on uncompleted contracts	(10,709)
	$ 28,600

Note 5 Backlog

The following schedule summarizes changes in backlog on fixed-price contracts during the three and six months ended June 30, 2009. Backlog represents the amount of revenue the Company expects to realize from work to be performed on uncompleted contracts in progress at quarter end, and from contractual agreements on which work has not yet begun.

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Backlog balance at beginning of the period	$ 889,092	$ 838,627
New contracts awarded during period	291,950	440,456
Contract adjustments		(27,849)
	1,181,042	1,251,234
Less: contract revenue earned during the period	(185,912)	(256,104)
Backlog balance at June 30, 2009	$ 995,130	$ 995,130

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Geospatial Holdings, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2009

Note 6 Related Party Transactions

The Company leases its headquarters building from Mark A. Smith, the Company s Chairman and Chief Executive Officer. The building has approximately 3,200 square feet of office space, and is used by the Company s corporate and engineering/operations staff. The Company incurred $39,000 of lease expense for this building during the six months ended June 30, 2009.

At December 31, 2008, notes payable by the Company to Mr. Smith for advances to the Company were $2,015,772. During the six months ended June 30, 2009, Mr. Smith loaned the Company $772,700, including unpaid rent, for working capital purposes. Interest on the loan at 8% amounted to $97,932 during the six months ended June 30, 2009. At June 30, 2009, the balance due on the note, including accrued interest, was $2,883,704.

During 2008 another stockholder, who owns approximately 14% of the Company s outstanding Common Stock, loaned the Company $100,000 for working capital purposes. Interest on the loan at 8% amounted to $1,603 during the three months ended March 31, 2009. On March 10, 2009, the balance due on the note of $104,638 was converted to 104,638 shares of the Company s Common Stock and warrants to purchase 20,927 shares of the Company s Common Stock at $1.50 per share, exercisable for ten years.

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Geospatial Holdings, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2009

Note 7 Income Taxes

The Company s provision for (benefit from) income taxes is summarized below:

	For the Three Months Ended June 30, 2009	For the Three Months Ended June 30, 2008	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008
Current:				
Federal	$	$	$	$
State				
Deferred:				
Federal	339,514	368,361	649,878	370,876
State	107,782	116,963	206,310	117,762
	447,296	485,324	856,188	488,638
Total income taxes	447,296	485,324	856,188	488,638
Less: valuation allowance	(447,296)	(485,324)	(856,188)	(488,638)
Net income taxes	$	$	$	$

The reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	For the Three Months Ended June 30, 2009	For the Three Months Ended June 30, 2008	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008
Federal statutory rate	35.0%	35.0%	35.0%	35.0%
State income taxes (net of federal benefit)	6.5	6.5	6.5	6.5
Valuation allowance	(41.5)	(41.5)	(41.5)	(41.5)
Effective rate	0.0%	0.0%	0.0%	0.0%

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Geospatial Holdings, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2009

Note 7 Income Taxes (continued)

Significant components of the Company s deferred tax assets and liabilities are summarized below as of June 30, 2009 and 2008. A valuation allowance has been established as realization of such assets has not met the more-likely-than-not threshold requirement under Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*.

	As of June 30, 2009	2008
Start-up costs	$ 101,408	$ 111,242
License fees	(69,337)	(31,517)
Depreciation	(90,921)	(72,822)
Allowance for doubtful accounts	4,150	4,150
Unrealized foreign currency losses		53,124
Uncompleted contracts	(23,604)	(194,799)
Net operating loss carryforward	3,935,299	1,881,958
Deferred income taxes	3,856,995	1,751,336
Less: valuation allowance	(3,856,995)	(1,751,336)
Net deferred income taxes	$	$

At June 30, 2009, the Company had federal and state net operating loss carryforwards of approximately $9,483,000. The federal and state net operating loss carryforwards expire beginning in 2021 and 2026, respectively. The amount of the state net operating loss carryforward that can be utilized each year to offset taxable income is limited by state law.

Note 8 Commitments and Contingencies

On March 31, 2009, the Company entered into a Letter of Agreement with Delta Networks, SA (Delta) and Reduct NV (Reduct) to change the terms of the Company s Exclusive License and Distribution Agreement dated August 3, 2006. Pursuant to the Letter of Agreement, the Company must make minimum purchases of Smart Probes of 6,000,000 during 2009. A payment on the minimum purchase requirement of $500,000 was due by June 1, 2009. The Company made payments towards the minimum purchase requirements totaling $100,000 in June 2009. The Company, Delta, and Reduct are currently in negotiations regarding a restructuring of the Company s payment obligations.

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Geospatial Holdings, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2009

Note 9 Stock-Based Payments

During the six months ended June 30, 2009, the Company granted options to purchase 250,000 shares of the Company s Common Stock to eligible employees under the 2007 Stock Option Plan, and options to purchase 50,000 shares of the Company s Common Stock under the 2007 Stock Option Plan were forfeited.

During the six months ended June 30, 2009, the Company granted warrants to purchase 70,927 shares of the Company s Common Stock at $1.50 for five years to certain stockholders in connection with the sale of Common Stock. No expense was recognized upon the grant of these warrants.

On January 30, 2009, the Company granted warrants to purchase 22,500 shares of the Company s Common Stock at $0.55 for ten years to a contractor in settlement of contractual obligations. No expense was recognized upon the grant of these warrants.

On March 6, 2009, the Company granted warrants to purchase 2,000,000 shares of the Company s Common Stock at $1.23 for ten years to the Company s President. Warrants to purchase 1,000,000 shares of the Company s Common Stock vested immediately upon the grant, and the balance vest over twelve months. No expense was recognized upon the grant of these warrants.

Note 10 Net Loss Per Share of Common Stock

Basic earnings per share are computed by dividing earnings available to common stockholders by the weighted average number of shares of Common Stock outstanding during the period. Diluted earnings per share reflect per share amounts that would have resulted if dilutive potential Common Stock had been converted to Common Stock. The following reconciles amounts reported in the financial statements:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net loss	$ (1,082,042)	$ (1,429,114)	$ (2,071,133)	$ (1,499,954)
Divided by:				
Weighted average shares outstanding	24,395,598	22,747,274	24,180,273	20,490,387
Basic and fully-diluted net loss per share	$ (0.04)	$ (0.06)	$ (0.09)	$ (0.07)

The effects of options to purchase 11,770,000 shares of Common Stock, and rights to purchase 5,930,972 shares of Common Stock were not included in the computation of diluted earnings per share because the effect of their conversion would be antidilutive.

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ITEM 2: MANAGEMENT S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

You should read the following Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) together with our financial statements and notes thereto as of and for the year ended December 31, 2008, filed with our Annual Report on Form 10-K on April 15, 2009, and our financial statements and notes thereto as of and for the three and six months ended June 30, 2009, which appear elsewhere in this Quarterly Report on Form 10-Q.

On April 25, 2008, Kayenta Kreations, Inc. (Kayenta) acquired all the outstanding Common Stock of Geospatial Mapping Systems, Inc. (GMSI) pursuant to an Agreement and Plan of Merger (the Merger Agreement) dated March 25, 2008. Upon consummation of the Merger Agreement, GMSI became a fully-owned subsidiary of Kayenta, which was subsequently renamed Geospatial Holdings, Inc. (the Company). Because GMSI s stockholders owned the majority of the Company upon consummation of the Merger Agreement, GMSI was deemed to be the acquiring entity. Accordingly, all historical financial information prior to the consummation of the Merger Agreement contained in this MD&A, and in our financial statements and notes thereto, is that of GMSI.

Prior to the Merger, Kayenta was a shell company as that term is defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the Exchange Act). Upon consummation of the Merger Agreement, the Company adopted GMSI s business, and ceased to be a shell company as defined in the Exchange Act. The Company s services include pipeline data acquisition, professional data management, and pipeline field services.

Liquidity and Capital Resources

At June 30, 2009, we had current assets of $714,999, and current liabilities of $4,402,408.

We are a party to the Reduct License Agreement to license the Smart Probe technology from Reduct, the developer of the technology. The Reduct License Agreement grants the Company exclusive control over the rights to the Smart Probe technology throughout North America, South America and Australia.

Pursuant to Amendment No. 3 to the Reduct License Agreement dated December 18, 2008, a Letter of Agreement dated March 10, 2009, and a Letter of Agreement dated March 31, 2009, we: (i) agreed to extend the payment due date for certain payments owed by the Company to Reduct; (ii) agreed to restructure certain other payments owed to Reduct; (iii) granted an option to purchase 500,000 shares of the Company s Common Stock to Delta Networks SA (Delta), the owner of substantially all of the common stock of Reduct; and (iv) agreed to work in good faith with Reduct and Delta to draft and execute mutually acceptable agreements pursuant to which we will acquire Reduct from Delta through the purchase of one hundred percent of Reduct s outstanding capital stock in exchange for $40 million in the aggregate of cash and the Company s Common Stock (the Acquisition).

Pursuant to the Letter of Agreement dated March 31, 2009, the Company must make minimum purchases of Smart Probes of 6,000,000 during 2009. A payment on the minimum purchase requirement of $500,000 was due by June 1, 2009. The Company made payments towards the minimum purchase requirements totaling $100,000 in June 2009. The Company, Delta, and Reduct are currently in negotiations regarding a restructuring of the Company s payment obligations.

The initial target closing date for the Acquisition was June 15, 2009, but that date may be extended for up to three successive three-month periods until March 15, 2010 (the Reduct Closing) and has been extended for the first three-month period. For each three-month extension, we are required to make a payment to or minimum purchases from Reduct in an amount of 1.5 million. We have not yet made any such payments or purchases.

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If we consummate the Acquisition by March 15, 2010, all license payments that we owe to Reduct will be discharged entirely. If we do not consummate the Acquisition by March 15, 2010, we will maintain our exclusive license and distribution rights by paying approximately 4.0 million of suspended license payments for 2008 and 5.6 million of suspended Smart Probe payments for 2009 (the Suspended Payments) and making minimum purchases of Smart Probes of approximately 7.9 million in 2010, 9.0 million in 2011, 10.4 million in 2012, 11.9 million in 2013, and thereafter, a minimum purchase that increases annually at a 15% rate over the prior year (collectively, the Minimum Purchase Requirements). In the event that we fail to make the Suspended License Payments or the Minimum Purchase Requirements, Reduct shall continue to provide services to us on all of our existing Reduct products and accessories, and shall make additional Reduct products and services available to us on a non-exclusive basis.

If Reduct believes that we have failed to meet our obligations under the Reduct License Agreement, including our obligation to effect the Reduct Closing in a timely manner, Reduct could seek to limit or terminate our license rights, which could lead to costly and time-consuming litigation and potentially, a loss of the licensed rights. During the period of any such litigation, our ability to carry out the development of client relationships and provide pipeline management services could be significantly and adversely affected.

Results of Operations

From GMSI s inception on May 26, 2006, through December 31, 2007, we were considered a development stage company as defined by Statement of Accounting Standards No. 7, *Accounting and Reporting by Development Stage Enterprises*. As such, we devoted substantially all of our efforts to establishing a new business. During 2008, we began to generate revenues from our planned operations, and ceased to be a development stage company.

Sales were $186,286 and $256,479 for the three and six months ended June 30, 2009, respectively, compared to $366,888 and $1,314,428 for the three and six months ended June 30, 2008, respectively. Cost of sales was $174,327 and $281,384 for the three and six months ended June 30, 2009, respectively, compared to $132,648 and $427,085 for the three and six months ended June 30, 2008, respectively. Our sales and cost of sales decreased in 2009 due to a decrease in demand for our services. Cost of sales as a percentage of sales increased in 2009 as we had less sales revenue to offset the fixed component of our cost of sales. We expect sales and cost of sales to fluctuate as our business reaches maturity.

Selling, general and administrative (SG&A) expenses include all costs that are not directly associated with our revenue-generating activities. SG&A expenses include payroll costs for sales, administrative, and technical personnel, sales and marketing costs, corporate costs, and facilities costs. SG&A expenses were $1,047,296 and $1,961,808 for the three and six months ended June 30, 2009, respectively, compared to $1,676,167 and $2,225,363 for the three and six months ended June 30, 2008, respectively. The decreases in 2009 were primarily due to legal, accounting and other expenses incurred in 2008 related to the acquisition of Kayenta and the subsequent filing of a Registration Statement under the Securities Act of 1933, as amended, for a portion of our shares. These decreases in expense were partially offset by increased expenses resulting from the expansion of our sales and administrative staff and facilities in 2009, and marketing costs associated with an advertising campaign in 2009.

Other income and expenses include interest income, interest expense, non-business income and expenses, and gains or losses on foreign currency exchange. Other income and expense for the three and six months ended June 30, 2009 was a net expense of $46,705 and $84,420, respectively, which included interest income of $7,587 and $15,035, respectively, interest expense of $54,342 and $100,788, respectively, and other income of $50 and $1,333, respectively. Other income and expense for the three and six months ended June 30, 2008 was a net income of $12,813 and a net expense of $161,661, respectively, which included interest income of $4,654 and $7,961, respectively, interest expense of $2,774 and $6,344, respectively, other income of $171 and $171, respectively, and a gain on foreign currency exchange of $10,762 and a loss on foreign currency exchange of $163,449, respectively. The increase in interest expense in 2009 is due to the increase in notes payable to stockholders. The decrease in losses on foreign currency exchange from 2008 to 2009 is because the Company had no liabilities to be settled in foreign currency in 2009.

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We had no net benefit from income taxes, as our deferred tax benefit was completely offset by a valuation allowance due to the uncertainty of realization of the benefit.

Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements as of June 30, 2009.

Application of Critical Accounting Policies

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions which, in our opinion, are significant to the underlying amounts included in the financial statements and for which it would be reasonably possible that future events or information could change those estimates include:

Impairment Assessment of Intangible Assets. Intangible assets consist of exclusive and perpetual license rights to the patent pending DuctRunner Smart Probe technology. We license the technology from Reduct NV, a Belgian company, the developer of the technology, under an Exclusive License and Distribution Agreement, as amended from time to time, that provides us with exclusive control rights to the DuctRunner Smart Probe technology throughout the continents of North America, South America, and Australia. We recorded an intangible asset of $1,367,000 upon use of the license. In addition to the license fees, we are required to make minimum purchases of Smart Probes . If the minimum purchase requirements are not met, the exclusivity portion of the license agreement with Reduct NV becomes void, and our investment in the license rights would become impaired.

The license rights have an indefinite useful life. Accordingly, the rights are not amortized under accounting principles generally accepted in the United States of America. We test the carrying value of the license rights annually for impairment, and review their useful life. Should the license rights be determined to be impaired, the value of the asset will be written down, and a loss recognized in the period in which the asset s recorded value exceeds its fair value. In our review of the license rights for the year ended December 31, 2008, we determined that the value of the license rights was not impaired.

Estimated Costs to Complete Fixed-Price Contracts. We record revenues for fixed-price contracts under the percentage-of-completion method of accounting, whereby revenues are recognized ratably as those contracts are completed. This rate is based primarily on the proportion of contract costs incurred to date to total contract costs projected to be incurred for the entire project, or the proportion of measurable output completed to date to total output anticipated for the entire project. We review our estimates of costs to complete each contract quarterly, and make adjustments if necessary. At June 30, 2009, we do not believe that material changes to contract cost estimates at completion for any of our open contracts are reasonably likely to occur.

Realization of Deferred Income Tax Assets. We provide a net deferred tax asset or liability equal to the expected future tax benefit or expense of temporary reporting differences between financial reporting and tax accounting methods and any available operating loss or tax credit carryovers. At June 30, 2009, we had a deferred tax asset resulting principally from our net operating loss deduction carryforward available for tax purposes in future years. This deferred tax asset is completely offset by a valuation allowance due to the uncertainty of realization. We evaluate the necessity of the valuation allowance quarterly.

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ITEM 3. QUANTATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk Interest rate risk refers to fluctuations in the value of a security resulting from changes in the general level of interest rates. We do not have significant short-term investments. Accordingly, we believe that we do not have a material interest rate exposure.

Foreign Currency Risk Our functional currency is the United States dollar. We transact business in foreign currencies. At the date a foreign currency transaction is recognized, each asset, liability, revenue, expense, gain, or loss arising from the transaction is measured and recorded in United States dollars using the exchange rate in effect at that time. At each balance sheet date, balances that will be settled in foreign currencies are adjusted to reflect the current exchange rate. Any gain or loss resulting from changes in foreign currency exchange rates is included in net income in the period in which the exchange rate changes.

Most of our transactions with Reduct NV are denominated in Euros. At June 30, 2009, we had no liabilities denominated in Euros.

Commodity Price Risk Based on the nature of our business, we have no direct exposure to commodity price risk.

ITEM 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the United States Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of Company management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 (Exchange Act) Rules 13a-15(e) and 15d-15(e). Based upon, and as of the date of this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective.

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Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the six months ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not a party to any material pending legal proceedings. No such action is contemplated by the Company nor, to the best of its knowledge, has any action been threatened against the Company.

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

During the quarter ended June 30, 2009, the Company sold 805,000 shares of Common Stock. Each share of Common Stock was sold at a price of $0.50 for a total of $402,500. The sales took place in a series of private placement transactions pursuant to the exemption from the registration requirements of the Securities Act provided by Regulation D. The purchasers are accredited investors, and the Company conducted the private placements without any general solicitation or advertisement and with a restriction on resale.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit	Description
31.1	Rule 13a-14(a) Certification of Mark A. Smith
31.2	Rule 13a-14(a) Certification of Thomas R. Oxenreiter
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Geospatial Holdings, Inc.
(Registrant)

Date: October 9, 2009

By: /s/ Mark A. Smith
Name: Mark A. Smith
Title: Chief Executive Officer

By: /s/ Thomas R. Oxenreiter
Name: Thomas R. Oxenreiter
Title: Chief Financial Officer