

VERDISYS INC  
 Form SB-2  
 June 29, 2004

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM SB-2**

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

**VERDISYS, INC.**

(Name of small business issuer in its charter)  
 California

State of incorporation  
**1382**

Primary Standard Industrial  
 Classification Code Number  
 22-37755993

IRS Employer  
 Identification No.  
 25045 I-45 North, Suite 525  
 The Woodlands, Texas 77380  
 (281) 364-6999

Principal Executive Offices  
 25045 I-45 North, Suite 525  
 The Woodlands, Texas 77380  
 (281) 364-6999

Principal Place of Business  
 John O'Keefe, Chief Financial Officer  
 25045 I-45 North, Suite 525  
 The Woodlands, Texas 77380  
 (281) 364-6000

Name, address, and telephone number of agent for service

**CALCULATION OF REGISTRATION FEE**

<b>Title of each class of securities to be registered</b>	<b>Amount to be registered</b>	<b>Proposed maximum offering price per share(1)</b>	<b>Proposed maximum aggregate offering price</b>	<b>Amount of registration fee</b>
Common Stock, no par value per share(2)	3,159,667	\$2.00(1)	\$ 6,319,334	\$ 800.66

Edgar Filing: VERDISYS INC - Form SB-2

---

Common Stock, no par value per share(3)	177,835	\$	3.3964(3)	\$	604,016	\$	76.53
---	---------	----	-----------	----	---------	----	-------

\* Stated for the purpose of calculation of the registration fee only.

- (1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) and Rule 457(h)(1) under the Securities Act of 1933, as amended and based on the average of the high and low sales prices of our common stock reported on the Pink Sheets on June 10, 2004. Also includes a maximum of 277,778 shares of common stock issuable contingent to triggering events contained in a prior financing agreement with Gryphon Master Fund, L.P.
- (2) Common stock outstanding held by selling stockholders.
- (3) These shares of common stock are not outstanding and are issuable upon exercise of warrants to purchase our common stock held by selling stockholders. In accordance with Rule 457(g) of the Securities Act, the offering price is based on the highest of the following: (a) the price at which such warrants may be exercised or (b) the price of our common stock as determined in accordance with Rule 457(c) under the Securities Act. See footnote 1.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434 check the following box. [ ]

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [ X ]

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

Approximate date of proposed sale to the public: **As soon as practical following the effective date of registration.**

---

**VERDISYS, INC. 25045 I-45 NORTH, SUITE 525**

**THE WOODLANDS, TEXAS 77380**

**3,337,502 SHARES**

**COMMON STOCK**

We are registering up to 3,337,502 shares of our common stock for sale by certain shareholders of our company identified in this Prospectus. These shareholders are referred to throughout this Prospectus as "selling stockholders." Of the 3,337,502 shares of our common stock subject to this Prospectus, 2,881,899 shares of our common stock are currently issued and outstanding; 177,835 shares of our common stock are issuable upon exercise of certain warrants, and a maximum of 277,778 shares of common stock are issuable contingent to triggering events contained in a prior financing agreement with Gryphon Master Fund, L.P.

Edgar Filing: VERDISYS INC - Form SB-2

The selling stockholders who wish to sell their shares of our common stock may offer and sell their shares on a continuous or delayed basis in the future. These sales may be conducted at fixed prices, market prices or at negotiated prices, and the selling stockholders may engage a broker or dealer to sell their shares. We will not receive any proceeds from these sales, but we will receive proceeds from the exercise of any warrants. For additional information on possible methods of sale, you should see [Plan of Distribution] on page 18.

The securities being registered trade on the Pink Sheets under the symbol "VDYS.PK".

The date of this Offering Prospectus is: June 23, 2004

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE INFORMATION IN THIS PROSPECTUS MAY NOT BE COMPLETE AND IS SUBJECT TO CHANGE. SELLING SECURITY HOLDERS MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT, OF WHICH THIS PROSPECTUS IS A PART, FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

INVESTMENT IN SMALL BUSINESSES INVOLVES A HIGH DEGREE OF RISK, AND INVESTORS SHOULD NOT INVEST ANY FUNDS IN VERDISYS, INC. UNLESS THEY CAN AFFORD TO LOSE THEIR ENTIRE INVESTMENT.

**SEE RISK FACTORS, BEGINNING ON PAGE 6.**

- II -

---

**VERDISYS, INC.**

**TABLE OF CONTENTS**

SUMMARY INFORMATION AND RISK FACTORS	4
<i>Summary Information</i>	4
<hr/>	
<i>Risk factors</i>	7
<hr/>	
USE OF PROCEEDS	15
SELLING SECURITY HOLDERS	15
PLAN OF DISTRIBUTION	18
LEGAL PROCEEDINGS	19
DIRECTORS, EXECUTIVE OFFICERS AND CONTROL PERSONS	21
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	24
DESCRIPTION OF SECURITIES	25
INTEREST OF NAMED EXPERTS AND COUNSEL	26
DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES	26
DESCRIPTION OF BUSINESS	27
<i>Business Development</i>	27
<hr/>	
<i>Business Segments</i>	27
<hr/>	
<i>Industry</i>	28
<hr/>	
<i>Lateral Drilling Services</i>	29

<i>Major Customers</i>	33
<i>Customer Acceptance</i>	33
<i>Market</i>	33
<i>Competition</i>	34
<i>Satellite Services</i>	35
<i>Major Customers</i>	37
<i>Market</i>	37
<i>Competition</i>	37
<i>Patents</i>	37
<i>Governmental Regulation</i>	38
<i>Employees</i>	38
MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION	39
DESCRIPTION OF PROPERTY	45
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	46
MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS	48
CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	52
FINANCIAL STATEMENTS	54
OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION	83
RECENT SALES OF UNREGISTERED SECURITIES	83
EXHIBITS	86
UNDERTAKINGS	88
SIGNATURES	89

- III -

**VERDISYS, INC.****Summary Information and Risk Factors**Summary Information**PROSPECTUS SUMMARY**

You should read the following summary together with the more detailed information regarding us and the securities being offered for sale by means of this Prospectus and our financial statements and notes to those statements appearing elsewhere in this Prospectus. This summary highlights material information contained elsewhere in this Prospectus.

**General**

Our mission is to substantially improve the economics of existing and evolving oil and gas operations through the application of selected technologies. We currently operate in the oil and gas service industry in two distinct business segments. Our primary segment is providing a service that enhances the recovery of oil and gas from new and existing wells. This service is performed by our specially fabricated mobile drilling rigs equipped to utilize a proprietary lateral drilling system known as Verdisys Lateral Drilling Services, or VLDS. With VLDS, we can drill multiple lateral holes for a distance of 300 feet horizontally, in selected formations, from an existing well bore down to a depth of 5800 feet. We can provide our services in a few days at approximately one-fourth the cost of conventional methods. We believe the combination of low front-end costs and the effectiveness and speed of the process should make VLDS highly attractive to oil and gas companies. We believe that there exists a substantial potential market in North America for the application of the VLDS technology.

Our secondary business segment is providing satellite services to oil and gas producers, allowing them to remotely monitor and control well head and pipeline and drilling operations. Using satellite, wireless fidelity 802.11 networks [Wi-Fi], and other wireless technology, we provide oil and gas producers the ability to dispense with a manual structure and move to a real-time, automated, state of the art energy management program. With our services, production levels can be optimized to respond to current market conditions and commitments. Our satellite service competes on the basis of its low cost, speed and broadband capability and our technical expertise in the use of multi-frequencies.

### Corporate History

In September 2000, we were incorporated initially as Rocker & Spike Entertainment, Inc, a California corporation. Until December 31, 2000, operations consisted of organizational matters and the search for an operating company with which to perform a merger or acquisition. Effective January 1, 2001, we purchased the assets and web domain of Accident Reconstruction Communications Network from its sole proprietor. Following the acquisition, we changed our name from Rocker & Spike Entertainment, Inc. to Reconstruction Data Group, Inc. At that time, we provided research, communication and marketing exposure to the accident reconstruction industry through our website and seminars.

In April 2003, we entered into a merger agreement with Verdisys, Inc. ([Verdisys]). Verdisys was initially incorporated as TheAgZone Inc. in 1999 as a California corporation. Its purpose was to provide e-Commerce satellite services to agribusiness. They changed their name to Verdisys in 2001, and in 2003, with the acquisition of exclusive rights to a proprietary lateral drilling process throughout most of the U.S. and Canada, they changed their market focus to concentrate on services to the oil and gas industry.

The merger agreement with Verdisys called for us to be the surviving company. In connection with the merger, our name changed to Verdisys, our articles of incorporation and bylaws remained in effect, the officers and directors of Verdisys became our officers and directors, each share of Verdisys' common stock was converted into one share of our common stock, and our accident reconstruction assets were sold. Additionally, Verdisys' historical financial statements replaced ours. As a result of the merger, we now provide specialty services to oil and gas production companies located in Oklahoma, Texas and Louisiana, and we have exclusive rights to the lateral drilling process throughout most of the U.S. and Canada.

- 4 -

### VERDISYS, INC.

#### Summary of the Offering

Shares outstanding before the offering	30,792,036 <sup>(1)</sup>
Shares offered by selling stockholders	2,881,899 shares of our common stock
Shares issuable upon exercise of warrants offered by selling stockholders	177,835 shares of our common stock
Shares issuable contingent to triggering events contained in a prior financing agreement with	

Gryphon Master Fund, L.P

277,778 shares of our common stock

Shares outstanding after the offering

31,247,649

Use of proceeds We will not receive any of the proceeds from the sale of our common stock offered by the selling stockholders. However, we may receive an aggregate of \$604,006 upon the exercise of all of the warrants held by the selling stockholders if such warrants are exercised for cash. Such funds, if any, will be used for working capital and general corporate purposes.

Risk factors The shares offered hereby involve a high degree of risk. You should carefully consider the information set forth in the [Risk Factors] section of this Prospectus as well as other information set forth in this Prospectus, including our financial statements and related notes.

Plan of distribution The offering of our shares of common stock is being made by stockholders of our company who may wish to sell their shares. Sales of our common stock may be made by the selling stockholders in the open market or in privately negotiated transactions and at market prices, fixed prices or negotiated prices.

Pink Sheets Trading Symbol

[VDYS.PK]

<sup>(1)</sup> As of March 31, 2004

- 5 -

---

## VERDISYS, INC.

### Risk factors

*Investing in our common stock is highly speculative and risky. You should be able to bear a complete loss of your investment. You should carefully consider the following risks and the other information in this Prospectus before investing in the shares. If any of the following risks and uncertainties develops into actual events, the business, financial condition and operating results could be materially adversely affected, and you could lose your entire investment. The risks and uncertainties described below are not the only ones which we face; there may be additional risks and uncertainties not presently known to us or those we currently believe are immaterial which could also have a negative impact on our business, financial condition, and operating results.*

*This Prospectus contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those discussed in the forward-looking statements as a result of certain factors, including the risk factors described below. The following risk factors should be considered carefully in addition to the other information contained in this Prospectus before purchasing the shares offered hereby.*

### GENERAL RISKS RELATING TO OUR COMPANY

#### **1. We have a limited operating history, which makes it difficult to evaluate our business performance.**

We have been in existence for a few years, but we have been conducting drilling operations using the proprietary lateral drilling technology only since June 2003 and satellite services to the oil and gas industry only since June 2002. Because we have a limited operating history, there is little historical financial data upon which an investor may evaluate our business performance. Our revenue and income potential are unproven. An investor must consider the risks, uncertainties, expenses and difficulties frequently encountered by companies in their early stages of development, particularly companies with limited capital in a rapidly evolving market. These risks and difficulties include our ability to develop our infrastructure, attract and maintain a base of customers, provide customer support, personnel, and facilities to support our business, and respond effectively to competitive and technological developments. Our business strategy may not be successful or may not successfully address any of these risks or difficulties. While we believe our business model will permit us to generate substantial revenues, there is no guarantee that the revenues will be realized. Failure to realize the revenue may have a material adverse effect on our financial condition.

**2. Verdisys, Inc. is an investment risk because business and marketing strategies planned are not proven.**

We have no established basis to assure investors that business or marketing strategies will be successful. We are highly dependent upon the acquisition of subscribers for our satellite division; selection of, and productivity from, appropriate oil and gas wells; as well as the effective application of technologies and services within operations. Our business model and marketing strategies anticipate such application and productivity, yet are unproven by a significant history of business operations. Failure to prove that our business model and strategies work through continued operations may have a material adverse effect on our business and financial condition.

**3. We may require additional capital in the future, which may not be available to us.**

We may need to raise additional funds through public or private debt or equity financing or other various means. Adequate funds may not be available when needed or may not be available on favorable terms. If we raise additional funds by issuing equity securities, dilution to existing stockholders will result, and such equity may have rights, preferences and privileges senior to those of our common stock. If we raise additional funds by issuing debt securities, we may be required to agree to covenants that may restrict our ability to expend or raise capital in the future. If funding is insufficient at any time in the future, we may be unable to fund acquisitions, take advantage of business opportunities or respond to competitive pressures. Failure to raise additional capital in the future may have a material adverse effect on our financial condition.

- 6 -

---

**VERDISYS, INC.**

**4. Our auditors have expressed doubt as to our ability to continue as a going concern**

As noted in the Independent Auditors Report (See Financial Note 2) due to the continued substantial operating losses that the Company has incurred raises substantial doubt as to the Company's ability to continue as a going concern. The Company is in an early stage of development and is rapidly depleting its cash resources, therefore it has determined that it will need to raise additional financing in the short term to continue in operation and fund future growth. The Company has incurring liquidated damages up to a cap of \$400,000 related to the timing of providing registration rights for the private financing that it arranged in November 2003. If we are unable to raise additional financing to satisfy obligations this would have a material adverse effect on the Company.

The Company currently plans to raise additional financing. The use of stock for currency in financing or making acquisitions may be heavily curtailed while the Company is under SEC investigation. (See Financial Note 16) If we are unable to arrange new financing or generate sufficient revenue from new business arrangements, the Company will be unable to continue in its current form and will be forced to restructure or seek creditor protection.

**5. We experienced operating losses in 2002 and 2003, and this trend may continue.**

We suffered net losses of \$3,128,782 for the year ended December 31, 2002 and \$7,356,045 for the year ended December 31, 2003, respectively, largely because our revenues were inadequate to compensate for increased operating and overhead costs. The volatility underlying the early stage nature of our business and our industry prevents us from accurately predicting future operating conditions and results, and we could continue to have losses. It is uncertain when, if ever, the company will have significant operating income or cash flow from operations sufficient to sustain operations. If cash needs exceed available resources, there can be no assurances that additional capital will be available through public or private equity or debt financings. Sustained losses will continue to have a material adverse effect on our business.

**6. Significant amounts of our outstanding common shares are restricted from immediate resale but may be available for resale into the market in the near future, possibly causing the market price of our common stock to drop significantly.**

As of March 31, 2004, Verdisys, Inc. had 30,792,036 shares of common stock issued, outstanding and held by approximately 763 shareholders. After this offering, we will have outstanding 31,247,649 shares of common

stock. As of March 31, 2004 approximately 2,356,312 common shares are available for resale in the public market. The shares we are registering in this offering and shares issuable upon exercise of the warrants may be resold in the public market immediately, resulting in an additional 3,337,502 common shares available for resale in the public market; increasing the amount of common shares for resale by approximately 130%.

As restrictions on resale for these shares being registered and the remaining 28,285,990 outstanding shares end, the market price could drop significantly if the holders of these restricted shares sell them or are perceived by the market as intending to sell them in an excessive amount relative to the market demand for our shares. An excessive sale of our shares may result in a material adverse effect on the price of our common stock, and our ability to raise capital.

**7. One principal stockholder can influence the corporate and management policies of our company.**

After giving effect to this offering, Berg McAfee Companies, and its affiliates, will effectively control approximately 27.4% of the outstanding common stock on a pro forma basis. Therefore, Berg McAfee Companies, and its affiliates, will continue to have the ability to substantially influence all decisions made by us. Additionally, Berg McAfee Companies, and its affiliates, control could have a negative impact on any future takeover attempts or other acquisition transactions. Furthermore, certain types of equity offerings require stockholder approval depending on the exchange on which shares of a company's common stock is traded. In the event we are required to obtain stockholder approval of a financing, Berg McAfee Companies, and its affiliates, ownership could block such a financing. The control by one principal stockholder results in less control by our board of directors, management and the remaining stockholders. Please read "Certain Relationships and Related Transactions."

**8. We may sustain losses resulting from our extension of credit to non-paying customers.**

We have, prior to February 2004, conducted much of our drilling activities for related parties, and we did not require collateral in support of our account receivables. This resulted, on occasion, in an impediment to us obtaining full payment for accounts receivable. Although we are implementing procedures to combat this credit risk, there can be no assurance that our efforts will be successful. Failure to guard against credit risk may have a material adverse effect on our financial condition.

- 7 -

---

**VERDISYS, INC.**

**9. Securities and Exchange Investigation Inquiries may continue to draw on our limited financial resources and continue to negatively impact our ability to raise additional capital.**

Verdisys has received notice that the Securities and Exchange Commission has initiated a formal investigation into its reporting practices and public statements about the Company in 2003.

The SEC has requested substantiation and documentary evidence from the Company concerning the performance of certain lateral drilling services by subcontractors in the period from May 2003 to September 2003, supervision of such services by the Company's executive management at the time, revenue recognition related to the performance of such services, the third quarter 2003 earnings restatement, public statements concerning the services performed, and related matters. The SEC has also requested information and documentary evidence related to the Verdisys' acquisition of certain assets of QuikView, Inc., a related party company, in June, 2003. In its letters to Verdisys requesting documents, the SEC stated that the staff's inquiry should not be construed as an indication that any violations of securities laws have occurred or as an adverse reflection on any persons, company or security.

Since December 2003, the Company has taken several steps to address issues related to the SEC's inquiries, including the termination and replacement of the previous Chief Executive Officer and Chief Operating Officer. Two directors have resigned from the Company's board and the Company has appointed a new CFO. Internal controls have been strengthened overall, particularly with respect to the public release of Company information and the recognition of revenue. The Company has also initiated an internal investigation of the matters of concern to the SEC. Consequently, the Company restated its second and third quarter financial statements and has decided to defer all revenue related to the aforementioned period until such time that it can substantiate



whether or not the services were performed.

Verdisys is cooperating fully with the SEC, including the provision of numerous documents and voluntary testimony by our current executives. Verdisys is not aware of any pending or threatened enforcement or other actions that might be initiated by the SEC. Although the Company is working to bring the matter to a prompt conclusion, it cannot make any assurance that the investigation will be resolved positively or that it will not have negative effects on the Company's limited resources or its ability to raise capital and use its stock as acquisition currency during the period of the investigation.

Although the Company is working to bring the matter to a prompt conclusion, it cannot make any assurance that the investigation will be resolved positively or that it will not have negative effects on the Company's limited resources.

**10. We have initiated a declaratory judgment action. If the court does not rule favorably it may lead to damages we would be required to pay related to the agreement.**

Verdisys initiated a lawsuit against Edge Capital that requests a declaratory judgment that a purported agreement between Verdisys and Edge is not enforceable. It was filed in Montgomery County, Texas in February 2004. The lawsuit arises from Edge's contention that one of Verdisys' ex-officers committed the company to purchase certain alleged oil and gas properties from Edge. Edge filed a counterclaim against Verdisys and asserts claims against new parties including persons related to Edge's financing source and current and former officers and directors of Verdisys. Edge seeks to enforce the agreement Verdisys challenges, and alleges several causes of action including claims for fraud, breach of contract, and conspiracy. If Edge prevails, it may obtain significant damages that may have a material adverse effect on Verdisys' financial condition.

**11. We have incurred a default judgment for an amount in excess of fifteen million dollars. If this judgment is upheld, these damages would have a material adverse effect on Verdisys' financial condition.**

Verdisys was informed that a default judgment was entered against in a lawsuit brought by Scooter's Convenience, Inc. dba LSS Satellite in Hockley County, Texas. The amount of the default judgment is \$15,304,593.20, plus \$38,000 in possible attorneys' fees, costs of court, and post judgment interest. Verdisys believes the default judgment was entered in error because the registered agent of the company was not properly served with the lawsuit. Further the default judgment includes awards for damages that are wholly unliquidated and are not proper for a default judgment. Verdisys has meritorious and complete defenses to the claims asserted in the lawsuit and intends to vigorously defend itself and is presently seeking to overturn the default judgment. No assurances can be given that such efforts will be successful.

- 8 -

---

**VERDISYS, INC.**

**12. We are subject to certain additional lawsuits. If these lawsuits are successful and substantial damages are awarded, these damages would have a material adverse effect on Verdisys' financial condition.**

Two shareholders lawsuits have been filed in the Southern District of Texas which seek class action status on behalf of all persons or entities that purchased common stock of the Company. The named defendants include the Company, the Company's former Chief Financial Officer and the Company's former Chief Executive Officer. The complaints alleges that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by making false and misleading statements concerning our reported financial results during the period, primarily relating to revenue recognition. See "Legal Proceedings".

In connection with its financing in October 2003, the Company agreed to provide certain registration rights to the investors. As part of the registration rights agreement with the investors, the Company agreed to register the shares on or before March 2004. In the event that the Company failed to comply with the required deadlines, the Company could be subject to certain liquidated damages. The investors have made a claim against the Company for the maximum liquidated damages in an amount of \$400,000. If the liquidated damages are ultimately

determined to be enforceable against the Company and the Company is unable to successfully restructure such claims, there may be a material adverse effect on the Company.

An adverse outcome in any of the above litigation would have a material adverse effect on our financial condition and result of operations.

Please see the section [Legal Proceedings].

**13. Our common stock is currently traded over the counter on the Pink Sheets resulting in potential illiquidity and high volatility in the market price of our common stock.**

The market price of our common stock is likely to be highly volatile as is the stock market in general as well as the capital stock of most small cap companies. Our common stock currently trades over the counter on the Pink Sheets, where stocks typically suffer from lower liquidity. This may lead to depressed trading prices, greater price volatility and difficulty in buying or selling shares in large quantities. Currently, there is a limited trading market for our common stock, and we cannot predict when, if ever, a fully developed public market for the common stock will occur.

**14. Our operations are subject to inherent risks that are beyond our control, and these risks may not be fully covered under our insurance policies.**

Our operations are subject to hazards inherent in the oil and gas industry, such as accidents, blowouts, explosions, craterings, fires and oil spills. These conditions can cause:

- personal injury or loss of life;
- damage to or destruction of property, equipment and the environment; and
- suspension of operations.

In addition, claims for loss of oil and gas production and damage to formations can occur in the well service industry. Litigation arising from a catastrophic occurrence at a location where our equipment and services are being used may result in us being named as a defendant in lawsuits asserting large claims.

We maintain insurance coverage that we believe to be customary in the industry against these hazards. However, we may not be able to maintain adequate insurance in the future at rates we consider reasonable. In addition, our insurance is subject to coverage limits and some policies exclude coverage for damages resulting from environmental contamination. The occurrence of a significant event or adverse claim in excess of the insurance coverage that we maintain or that is not covered by insurance could have a materially adverse effect on our financial condition and results of operations.

- 9 -

---

**VERDISYS, INC.**

**15. We are subject to various operational and performance risks related to projects that we undertake and services that we provide.**

We are subject to various operational and performance risks related to projects that we undertake and services that we provide. These risks include:

changes in the price or the availability of commodities that we use;

non-performance, default or bankruptcy of key suppliers or subcontractors;

cost over-runs and operating cost inflation resulting from fixed-price projects; and

failure by one or more parties to a complex business arrangement for technically demanding projects.

Failure to guard against operational and performance risks may have a material adverse effect on our financial condition.

**16. Our markets may be adversely affected by oil and gas industry conditions that are beyond our control.**

Oil and gas industry conditions are influenced by numerous factors over which we have no control, such as the supply of and demand for oil and gas, domestic and worldwide economic conditions, political instability in oil producing countries and merger and divestiture activity among oil and gas producers. Those conditions could adversely impact the level of drilling and workover activity by some of our customers. This reduction in activity may cause a decline in the demand for our services or adversely affect the price of our services. We cannot accurately predict either the future level of demand for our services or future conditions of the well service industry. A decline in the demand for our services may have a material adverse effect on our business.

**17. Our success depends on key members of our management, the loss of whom could disrupt our business operations.**

We depend to a large extent on the services of some of our executive officers and directors. The loss of the services of either John O'Keefe, or David Adams could disrupt our operations. We have entered into employment agreements with several of our key executives that contain non-compete provisions. Notwithstanding these agreements, we may not be able to retain our executive officers and may not be able to enforce the non-compete provisions in the employment agreements. Failure to retain key members of our management may have a material adverse effect on our business.

**RISKS RELATED TO OUR LATERAL DRILLING BUSINESS**

**1. We are highly dependent on a small number of customers, two of whom are related parties. The loss of any of these customers would have an adverse effect on our revenue.**

One customer accounted for 38% and 87% of total revenues in 2003 and 2002, respectively. Related parties accounted for 52% of total revenue.

In the past a relatively limited number of customers has accounted for a substantial portion of our revenue. In the second half of 2003, 53% of our revenue was derived from services provided to three customers. Of those three customers, two may be considered related parties. In the same period, 52% of our revenue was derived from services provided to the two related parties. In addition, Edge, our only non-related customer in that period, has refused to pay for wells drilled in the second half of 2003, resulting in a total of \$1,993,000 being reversed or deferred. We are attempting to resolve such matter on an expedited basis; however, no assurance is given that such funds will be recovered from such customer in the near future or at all.

We expect that sales of our services to a limited number of customers will continue to account for a high percentage of our revenue for the near term. There can be no assurance that our current customers will continue to place orders with us or that we will be able to obtain orders from new customers. The loss of any customer or any reduction in orders by such customers, including reductions due to market or competitive conditions in the industry or the inability to collect monies owed to us by certain customers may have a material adverse effect on our business.

- 10 -

---

**VERDISYS, INC.**

**2. We may not be able to protect our lateral drilling technology which could result in competition with service providers utilizing an infringing technology.**

The license agreement allocates responsibility in maintaining the status of the patents underlying the technology we license with the US Patent and Trademark Office to the licensor. Although the licensor has performed this obligation in the past, there can be no assurance that the licensor will have the ability to continue to maintain the patents. In the event Verdisys, Inc. had to assume these responsibilities additional pressure on our financial

resources would result. An inability to continue operations under the exclusivity granted by the licensing agreement may have a material adverse effect on our business.

**3. Our customers may not realize the expected benefits from our lateral drilling technology, which may impair market acceptance of our lateral drilling services.**

Our lateral drilling business is heavily dependent upon our clients achieving enhanced production, or lower costs, from certain types of existing oil and gas wells. Many of the wells for which the lateral drilling technology is used or suspected of being useful have been abandoned for some time due to low production volumes or other reasons. In some cases, we have experienced difficulty in having the enhanced production reach the market due to the gathering field pipeline system's disrepair resulting from the age of the fields. There can be no assurance that our lateral drilling technology will achieve enhanced production from every well drilled, or that, if enhanced production is achieved initially, it will continue for the duration necessary to achieve payout or that it will reach the market on a timely basis. The failure to achieve projected enhancements could result in making the application of the technology uneconomic for our clients. Please see the section "Verdisys Lateral Drilling Service" for an explanation as to how we have added additional screening tools and criteria to attempt to improve the likelihood of achieving an economic benefit for our clients. Failure to achieve an economic benefit for our clients in the provision of this service may have a material adverse effect on our business.

**4. We may be unable to accurately identify oil and gas wells on which our lateral drilling technology will enhance oil and gas recovery, which may impair the market acceptance of our lateral drilling services.**

Our lateral drilling business is heavily dependent on our ability to correctly identify with our clients, the appropriate oil and gas wells that will produce the enhanced revenues or lower costs. Certain subsurface conditions are not conducive to the use of our high pressure lateral drilling technology, and certain wells may have been severely depleted or otherwise negatively impacted in some manner by the operator. While we have added an evaluation screening technique and other new technology and improvements relating to analysis of depleted fields, the failure to identify the correct types of oil and gas wells could result in not realizing the expected economic returns which could initially have a material adverse effect on our business, financial condition and operating results.

**5. Competition within the well service industry may adversely affect our ability to market our services.**

The well service industry is highly competitive and includes several large companies, such as Halliburton, Baker Hughes, Schlumberger and other independent drilling companies that possess substantially greater financial and other resources than we do. These greater resources could allow those competitors to compete more effectively than we can. Additionally, the number of rigs available continues to exceed demand, resulting in active price competition. Moreover, many contracts are awarded on a bid basis, which further increases competition based on price. Failure to successfully compete within our industry may have a material adverse effect on our business.

- 11 -

---

**VERDISYS, INC.**

**6. We may be subject to environmental requirements which may increase our costs or liabilities related to our lateral drilling operations.**

Given the manner in which we currently operate our business, we are not regulated to the extent that an oil and gas company is with respect to environmental laws, rules and regulations in the U.S. and other countries, including those covering hazardous materials, because we generally do not own the properties we service. However, environmental requirements generally are becoming increasingly strict. In the future, we may be held liable for certain failures relating to environmental regulations. Sanctions for failure to comply with these requirements, many of which may be applied retroactively, may include:

- administrative, civil and criminal penalties;
- revocation of permits; and
- corrective action orders, including orders to investigate and/or clean up contamination.

Liability for damages arising as a result of environmental laws could be substantial and could have a material adverse effect on our results of operations. The liabilities incurred as a result of complying with environmental requirements or failure on our part to comply with applicable environmental requirements may have a material adverse effect on our financial condition. There can be no assurance that governmental laws will not broaden in scope in the future to cover the types of services that we currently provide. Failure to comply with environmental laws could have a material negative impact on our financial condition.

**7. Changes in environmental laws may decrease demand for our services.**

Changes in environmental laws may negatively impact demand for our services. Activity by oil and gas exploration and production companies may decline if, for example, the Environmental Protection Agency promulgates more stringent environmental regulations such as land use policies. If oil and gas exploration and production activities decline, this could have a material adverse effect on our operating results.

**RISKS RELATED TO OUR SATELLITE BUSINESS**

**1. We are highly dependent upon a few key providers who furnish satellite networking components, hardware, and technological services.**

Our satellite business is heavily dependent on agreements with Spacenet, ViaSat and other equipment and service providers. These strategic relationships provide key network technology, satellite data transport, hardware and software. Failure of Spacenet, ViaSat or other key relationships to meet our expectations or termination of a relationship with one of our key providers may have a material adverse effect on our business.

**2. We depend upon our vendors and their affiliates to provide services that we require to operate the network we use to provide services to our customers.**

We are not and do not plan to become a licensee of the Federal Communications Commission ("FCC") and do not hold any authorization to operate satellite communications facilities. We depend upon licenses held by Spacenet and ViaSat and their subsidiaries for our satellite communications. If the licenses held by Spacenet and ViaSat are limited or revoked, if the FCC limits the number of its customer premises earth stations or if Spacenet or ViaSat fails to operate the earth stations providing service to us and our subscribers in a satisfactory manner, our operating results may be materially adversely affected.

**3. We rely on third-party independent contractors to install our customer premises equipment at new subscribers' businesses and homes.**

We have agreements with Keypoint, RS&I and Metron North America to provide installation services to our customers. We do not control the hiring, training, certification and monitoring of the employees of our third-party independent contractors. If growth of our new subscriber base outpaces growth of our installer base or if the installers fail to provide the quality of service that our customers expect, our operating results may be materially adversely affected.

- 12 -

---

**VERDISYS, INC.**

**4. The service we provide is entirely dependent on the functionality of satellites on which we lease transponders and on our computer and communications hardware and software.**

Our ability to provide service is entirely dependent on the functionality of satellites on which we lease transponders. These satellites may experience failure, loss, damage or destruction from a variety of causes, including war, anti-satellite devices and collision with space debris. If this occurs, we are likely to suffer:

permanent loss of service;  
temporary gaps in service availability; or  
decreased quality of service.

Such a failure in the service we provide may have a material adverse effect on our business, financial condition and operating results.

The ability to provide timely information and services depends also on the efficient and uninterrupted operation of our computer and communications hardware and software systems. These systems and operations are vulnerable to damage or interruption from human error, natural disasters, telecommunication failures, break-ins, sabotage, computer viruses, intentional acts of vandalism and similar events. We are in the process of designing and plan to implement a disaster recovery plan. Despite precautions, there is always the danger that human error or sabotage could substantially disrupt the system. Any such failure may have a material adverse effect on our business.

**5. We may be unable to attract or retain subscribers.**

If we are unable to attract or retain subscribers, our telecommunications business will be harmed. Our success depends upon our ability to rapidly grow our subscriber base. Several factors may negatively impact this ability, including:

loss of our existing sales employees, resulting in our lack of access to potential subscribers;

failure to establish and maintain the Verdisys brand through advertising and marketing, or erosion of our brand due to misjudgments in service offerings;

failure to develop or acquire technology for additional value added services that appeals to the evolving preferences of our subscribers;

failure to meet our expected minimum sales commitments to Spacenet and ViaSat; and

failure to provide the minimum transmission speeds and quality of service our customers expect.

In addition, our service may require customers to purchase our satellite system equipment and to pay our monthly subscriber fees. The price of the equipment and the subscription fees may be higher than the price of many dial-up, DSL and cable modem Internet access services, where available. In some instances, we expect to subsidize our subscribers' customer premises equipment to encourage the purchase of our service and to offset our higher relative costs but such subsidy may not be possible. Failure to attract or retain subscribers may have a material adverse effect on our business.

**6. We may fail to manage any potential growth or expansion, negatively impacting our quality of service or overcapacity impacting profitability.**

If we fail to manage our potential rapid growth and expansion effectively or expand and allocate our resources efficiently, we may not be able to retain or grow our subscriber base. If our assumptions regarding the usage patterns of our subscribers are wrong or if our subscribers' usage patterns change, we will have either too little or too much satellite capacity, both of which could harm our business.

If we achieve the substantial subscriber growth that we anticipate, we will need to procure additional satellite capacity. If we are unable to procure this capacity, we may be unable to provide service to our subscribers or the quality of service we provide may not meet their expectations. Failure to manage any potential growth may have a material adverse effect on our business.

**VERDISYS, INC.**

**7. Our current services may become obsolete due to the highly competitive and continued advancement of the satellite industry. Larger service providers may provide services reduced pricing.**

Intense competition in the Internet services market and inherent limitations in existing satellite technology may negatively affect the number of our subscribers. Competition in the market for consumer Internet access services is intense, and we expect the level of competition to intensify in the future. We compete with providers of various high-speed communications technologies for local access connections such as cable modem and DSL. We also may face competition from traditional telephone companies, competitive local exchange carriers and wireless communication companies. As our competitors expand their operations to offer high speed Internet services, we may no longer be the only high-speed service available in certain markets. We also expect additional competitors with satellite-based networks to begin operations soon. In particular, some satellite companies have announced that in the future they may offer high-speed Internet service at the same price or at a lower price than we currently intend to offer and are offering our services. Many of our current and potential competitors have longer operating histories, greater brand name recognition, larger subscriber bases and substantially greater financial, technical, marketing and other resources than we have. Therefore, they may be able to respond more quickly than we can respond to new or changing opportunities, technologies, standards or subscriber requirements. Any such competition may have a material adverse effect on our business.

**8. We may be mistaken in our belief as to future growth of the satellite broadband market.**

While we believe that the trend toward satellite broadband information services in the energy market will continue to develop, our future success is highly dependent on increased use of these services within the sector. The number of satellite broadband users willing to pay for online services and information may not continue to increase. A failure in the market for satellite broadband services to develop as expected may have a material adverse effect on our business.

**9. We may be subject to significant liability for our products.**

If our products contain defects, we may be subject to significant liability claims from subscribers and other users of our products and incur significant unexpected expenses or lost revenues. Our telecommunications products are complex and may contain undetected errors or failures. If this happens, we may experience delay in or loss of market acceptance and sales, products returns, diversion of research and development resources, injury to our reputation or increased service and warranty costs. We also have exposure to significant liability claims from our customers because our products are designed to provide critical communications services. Although we attempt to limit such exposure through product liability insurance and through contractual limitations in our customer agreements, such precautions may not cover all potential claims resulting from a defect in one or more of our products. Failure of our products to perform satisfactorily may have a material adverse effect on our operating results.

- 14 -

---

**VERDISYS, INC.**

**Use of Proceeds**

We will not receive any of the proceeds from the sale of our common stock offered by the selling stockholders. However, we may receive an aggregate of \$604,006 upon the exercise of all of the warrants held by the selling stockholders if such warrants are exercised for cash. Such funds, if any, will be used for working capital and general corporate purposes. Verdisys, Inc. is registering these 3,337,502 common stock shares on behalf of the selling security holders and shall bear all costs associated with the registration of these issued and outstanding shares.

**Selling Security Holders**

This Prospectus covers a total of 3,337,502 shares of our common stock to be sold by the selling stockholders, including:

- 2,881,899 shares of our common stock issued and outstanding; and
- 177,835 shares of common stock issuable upon exercise of outstanding warrants.

Edgar Filing: VERDISYS INC - Form SB-2

A maximum of 277,778 shares of common stock issuable contingent to triggering events contained in a prior financing agreement with Gryphon Master Fund, L.P. If in the ten months subsequent to the agreement, the 30 day average closing price of Verdisys' common stock drops below \$6 per share, such drops could result in the issuance of a maximum of 277,778 additional shares of common stock for no additional compensation. If this occurs, a total of 1,111,111 common shares will have been issued for an average price of \$4.50 per share.

After the registration statement of which this prospectus is a part becomes effective and subject to applicable rules and restrictions of the Securities Act of 1933, security holders may from time to time sell the shares on the Pink Sheets, or any other securities exchange or automated quotation system on which the common stock may be listed or traded, in negotiated transactions or otherwise, at the prices then prevailing or related to the then current market price or at negotiated prices. Verdisys, Inc. shall neither be involved in determination of the price nor shall receive any proceeds from the sale of any shares sold by selling security holders. Shares being registered were issued to the selling stockholders in connection with transactions exempt from the registration requirements of the Securities Act of 1933, as amended.

The common shares of Verdisys, Inc. are currently listed on the Pink Sheets under the symbol "VDYS.PK".

The following table lists:

all of the stockholders and amount of shares to be registered under this Offering;

the number of shares of our common stock (including those shares of our common stock underlying warrants) covered by this Offering; and

the amount of shares of our common stock owned by each such selling stockholder as of March 31, 2004 assuming that each such stockholder would sell all of his or her shares of our common stock that this offering registers.

- 15 -

**VERDISYS, INC.**

<b>Name of Registering Stockholder</b>	<b>Shares of Common Stock Registered in this Offering</b>	<b>Shares of Common Stock Issuable Upon Exercise of Warrants</b>	<b>Total</b>	<b>Shares of Common Stock Owned After the Offering<sup>(1)</sup></b>
Marcus Abundis.	6,250	0	6,250	0
Michael L. and Sharon Bowman.	7,500	0	7,500	0
John Burke	8,000	0	8,000	0
James Todd Burkdall	12,500	0	12,500	0
Vivian JeNeal Carter	6,667	0	6,667	0
Joseph Childrey	25,000	0	25,000	0
Cohen Specialists LLC	25,000	0	25,000	0
Robert E and Rosalie T Dettle Living Trust	12,500	0	12,500	0
Jerome Dreyfus	6,250	0	6,250	0
R.V. Edwards, Jr.	15,000	0	15,000	0
David Eskandari	6,250	0	6,250	0
Michael A. Frangopoulos	15,000	0	15,000	0
Donald W. Greve	5,333	0	5,333	0
Nick Gorenc	46,000	0	46,000	0
Scott R. Griffith	6,667	30,945	37,612	0
Gryphon Master Fund, L.P.(3)	1,411,111	0	1,411,111	0
Kenneth A. Ikemiya	53,333	0	53,333	319,992
Multi Ag Media	112,000	0	112,000	0
Matthew R. Iwasaka	30,000	0	30,000	300,000
Jericho Investments, LLC	25,000	0	25,000	0
Howard Kaplan	17,500	0	17,500	0
Vivianis Kaplanis	8,000	0	8,000	0
Venkata Kollipara	25,000	0	25,000	0



Edgar Filing: VERDISYS INC - Form SB-2

Maria Koutoures FOB IRA	25,000	0	25,000	0
Carl Landers(2)	125,000	0	125,000	800,000
Gary B. Laughlin	13,333	0	13,333	0
London Family Trust	273,333	30,945	304,278	0
Mahi-Niki Loumidis	7,500	0	7,500	0
Louis Lyras	7,000	0	7,000	0
George Shirahama Maggay	12,500	0	12,500	0
Harry Markus, Jr.	13,333	0	13,333	6,800
Peter A. Massaniso	80,000	0	80,000	0
Henry H. and Margaret O'Neill Mauz	20,000	0	20,000	50,000
Steve McIntee	12,500	0	12,500	0

- 16 -

**VERDISYS, INC.**

<b>Name of Registering Stockholder</b>	<b>Shares of Common Stock Registered in this Offering</b>	<b>Shares of Common Stock Issuable Upon Exercise of Warrants</b>	<b>Total</b>	<b>Shares of Common Stock Owned After the Offering<sup>(1)</sup></b>
Robert E. McMillan	10,000	0	10,000	0
David D. McNabb	7,000	0	7,000	4,000
Ronald Minor	100,000	0	100,000	100,000
Nancy Mondesitt	20,000	0	20,000	0
Montana Grain Growers Association	0	85,000	85,000	0
Gregg Mullery	12,500	0	12,500	0
David Newton	10,000	0	10,000	0
Robert Pastor	13,333	0	13,333	0
PNP Petroleum Inc.	20,000	0	20,000	0
Ponte Vedra Partners, Ltd.	110,000	0	110,000	0
Prima Capital Group, Inc.	39,400	0	39,400	0
Elizabeth A. Reed	18,750	0	18,750	0
John Rogers	26,667	0	26,667	0
Peter Skafte	5,000	0	5,000	0
Jesse B. Shelmire	6,667	30,945	37,612	0
Jay D. Smith	12,500	0	12,500	0
Pepper Snyder	204,166	0	204,166	100,000
George M. and Lisa K. Spanish	26,667	0	26,667	0
Take Care Family Limited Partnership	6,667	0	6,667	10,000
Ernest Telford	25,000	0	25,000	0
Joseph Zito	10,000	0	10,000	0
<b>Totals</b>	<b>3,159,667</b>	<b>177,835</b>	<b>3,337,502</b>	<b>1,690,792</b>

All of the selling stockholders listed in the table shall hold less than 1% of the outstanding shares of our common stock after this offering (assuming the sale of all of the shares of our common stock covered by this prospectus) with the exception of Kenneth A. Ikemiya and Carl Landers.

(2)

Mr. Carl Landers was a Director of the Company from October 2003 to March 2004. Otherwise none of the named security holders have held any position, office, or material relationship within the past three years with Verdisys, Inc. or any predecessor or affiliates.

(3)

This includes 277,778 common shares which may be issued contingent to triggering events contained in a prior financing agreement with Gryphon Master Fund, L.P.

All amounts shown represent shares of common stock of Verdisys, Inc.

- 17 -

---

## **VERDISYS, INC.**

### **Plan of Distribution**

#### **PLAN OF DISTRIBUTION**

We are registering the shares of common stock on behalf of the selling stockholders. The shares of common stock may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market prices, at varying prices determined at the time of sale, or at negotiated prices. These sales may be effected at various times in one or more of the following transactions, or in other kinds of transaction:

transactions on any national securities exchange or U. S. inter-dealer system of a registered national securities association on which the common stock may be listed or quoted at the time of sale;

in the over-the-counter market;

in private transactions and transactions otherwise than on these exchanges or systems or in the over-the-counter market;

in connection with short sales of the shares;

by pledge to secure or in payment of debt and other obligations;

through the writing of options, whether the options are listed on an options exchange or otherwise;

in connection with the writing of non-traded call options, in hedge transactions and in settlement of other transactions in standardized or over-the-counter options; or

through a combination of any of the above transactions.

The selling stockholder and its successors, including its transferees, pledges or donees or their successors, may sell the common stock directly to the purchaser or through underwriters, broker-dealers or agents, who may receive compensation in the form of discounts, concessions or commissions from the selling stockholder or the purchaser. These discounts, concessions or commissions as to any particular underwriter, broker-dealer or agent may be in excess of those customary in the types of transactions involved.

In addition, any securities covered by this Prospectus which qualify for sale pursuant to Rule 144 of the Securities Act may be sold under Rule 144 rather than pursuant to this Prospectus.

We entered into a registration rights agreement for the benefit of the selling stockholders to register our common stock under applicable federal and state securities laws. We have agreed to bear certain expenses in connection with the registration of the shares subject to this Prospectus, but we will not receive any of the proceeds from the sale of the shares of common stock subject to this Prospectus by the selling stockholders except for payment of the exercise price in the event that the warrants are exercised. The registration rights agreement provides for cross-indemnification of the selling stockholders and us and our respective directors, officers and controlling persons against specific liabilities in connection with the offer and sale of the common stock, including liabilities under the Securities Act.

**VERDISYS, INC.****Legal Proceedings***Breach of Promissory Note / Breach of Security Agreement*

In August 2002, Verdisys settled a lawsuit filed against it in late 2001 for breach of promissory note and breach of security agreement, by agreeing to pay \$228,494. Verdisys agreed to pay \$15,000 on October 1, 2002 and \$5,000 per month from November 2002 through August 2004. Verdisys settled the debt in 2003 by paying \$180,000 cash and issuing 200,000 shares of common stock for a cashless exercise of 20,000 warrants at \$.10 per share.

*Lawsuits Involving Edge Capital Group, Inc.*

Verdisys initiated a lawsuit against Edge Capital that requests a declaratory judgment that a purported agreement between Verdisys and Edge is not enforceable. It was filed in Montgomery County, Texas in February 2004. The lawsuit arises from Edge's contention that one of Verdisys's ex-officers committed the company to purchase certain alleged oil and gas properties from Edge. Edge filed a counterclaim against Verdisys and asserts claims against Dan Williams (Verdisys's former President and CEO), Eric McAfee, Ron Robinson, Solarcom, L.L.C., DeLage Landen Financial Services, Inc., Andrew Wilson, and Allen Voight. Edge seeks to enforce the agreement Verdisys challenges, and alleges several causes of action including claims for fraud, breach of contract, and conspiracy. If Edge prevails, it may obtain significant damages that may have a material adverse effect on Verdisys's financial condition.

Edge and one of its apparent owners, Frazier Ltd., initiated a lawsuit in Summin County, Ohio against Solarcom, L.L.C., DeLage Landen Financial Services, Inc., Verdisys, Inc., and Firstmerit Bank, N.A. that sought an injunction against the draw against a letter of credit pledged as collateral for a credit advanced to Edge. Edge asserted that its transaction with Verdisys was the product of fraud and that its creditor, DeLage Landen as assignee from Solarcom, should not be allowed to draw against Edge's letter of credit from Firstmerit. The Ohio state court denied Edge's request for a temporary injunction. Verdisys is uncertain whether Edge will prosecute its claims against Verdisys in the Montgomery County, Texas action, which was filed first, or the Ohio action. The pleadings in the Ohio action do not include any claim for damages from Verdisys and Verdisys is unable to determine whether an adverse judgment would have a material adverse effect on Verdisys's financial condition.

*Class Action Lawsuits*

Verdisys has learned that it is a defendant in two purported class action lawsuits brought by former shareholders. The lawsuits, which according to press releases about the lawsuits issued by the plaintiffs's lawyers appear in substance to be practically identical, allege that Verdisys and its former CEO, Dan Williams, and the Company's former CFO, Andrew Wilson, violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder. The lawsuits allege that defendants made materially misstatements about Verdisys's financial results. More specifically, the Complaints allege that defendants failed to disclose and indicate: (1) that Verdisys had materially overstated its net income and earnings per share; (2) that defendants prematurely recognized revenue from contracts between Verdisys, Edge Capital and Energy 2000 in violation of GAAP and its own revenue recognition policy; (3) that Verdisys lacked adequate internal controls and was therefore unable to ascertain the true financial condition of the company; and (4) that as a result of recognizing revenue prematurely, Verdisys's financial results were inflated at all relevant times. Verdisys has not yet been served in the lawsuits and continues to evaluate its defense to these allegations, as well as the potential impact that an adverse judgment would have on it.

*Securities and Exchange Commission Investigation Inquiries*

Verdisys has received notice that the Securities and Exchange Commission has initiated a formal investigation into its reporting practices and public statements about the Company in 2003.

The SEC has requested substantiation and documentary evidence from the Company concerning the performance of certain lateral drilling services by subcontractors in the period from May, 2003 to September 2003, supervision of such services by the Company's executive management at the time, revenue recognition related to the performance of such services, the third quarter 2003 earnings restatement, public statements concerning the services performed, and related matters. The SEC has also requested information and documentary evidence related to the Verdisys's

- 19 -

---

## **VERDISYS, INC.**

acquisition of certain assets of QuikView, Inc., a related party company, in June, 2003. In its letters to Verdisys requesting documents, the SEC stated that the staff's inquiry should not be construed as an indication that any violations of securities laws have occurred or as an adverse reflection on any persons, company or security.

Since December 2003, the Company has taken several steps to address issues related to the SEC's inquiries, including the termination and replacement of the previous Chief Executive Officer and Chief Operating Officer and the reassignment of its Chief Financial Officer based upon his desire not to relocate to Houston. Two directors have resigned from the Company's board and the Company has appointed a new CFO. Internal controls have been strengthened overall, particularly with respect to the public release of Company information and the recognition of revenue. The Company has also initiated an internal investigation of the matters of concern to the SEC. Consequently, the Company is restating its second and third quarter financial statements and has decided to defer all revenue related to the aforementioned period until such time that it can substantiate whether or not the services were performed.

Verdisys is cooperating fully with the SEC, including the provision of numerous documents and voluntary testimony by our current executives. Verdisys is not aware of any pending or threatened enforcement or other actions that might be initiated by the SEC. Although the Company is working to bring the matter to a prompt conclusion, it cannot make any assurance that the investigation will be resolved positively or that it will not have negative effects on the Company's limited resources or its ability to raise capital and use its stock as acquisition currency during the period of the investigation.

### **Default Judgment**

Verdisys was informed that a default judgment was entered against us in a lawsuit brought by Scooter's Convenience, Inc. dba LSS Satellite in Hockley County, Texas. The amount of the default judgment is \$15,304,593.20, plus \$38,000 in possible attorneys' fees, costs of court, and post judgment interest. Verdisys believes the default judgment was entered in error because the registered agent of the company was not properly served with the lawsuit. Further the default judgment includes awards for damages that are wholly unliquidated and are not proper for a default judgment. Verdisys has meritorious and complete defenses to the claims asserted in the lawsuit and intends to vigorously defend itself and is presently seeking to overturn the default judgment. No assurances can be given that such efforts will be successful.

### **Claim for Liquidated Damages**

In connection with its financing in October 2003 with Gryphon Master Fund, L.P, the Company agreed to provide certain registration rights to the investors. As part of the registration rights agreement with Gryphon, the Company agreed to register the shares on or before March 2004. In the event that the Company failed to comply with the required deadlines, the Company could be subject to certain liquidated damages. Gryphon has made a claim against the Company for the maximum liquidated damages in an amount of \$400,000. The company has not been notified of any legal action being filed based on this claim.

### **Concluding Statement**

Verdisys has never been in bankruptcy, receivership or any similar legal proceeding. Other than described above, Verdisys is not aware of any other threatened legal proceedings. The foregoing is also true with respect to each officer, director and control shareholder as well as any entity owned by any officer, director and control shareholder, over the last five years. As part of its regular operations, Verdisys may become party to various

pending or threatened claims, lawsuits and administrative proceedings seeking damages or other remedies concerning its commercial operations, products, employees and other matters. Although Verdisys can give no assurance about the outcome of these or any other pending legal and administrative proceedings and the effect such outcomes may have on the company, except as described above, Verdisys believes that any ultimate liability resulting from the outcome of such proceedings, to the extent not otherwise provided for or covered by insurance, will not have a material adverse effect on Verdisys' financial condition or results of operations.

- 20 -

## VERDISYS, INC.

### Directors, Executive Officers and Control Persons

The names of our directors and executive officers and certain additional information with respect to each of them are set forth below. The dates set forth under "Year First Became Director" below indicate the year in which our directors first became a director of our predecessor in interest, Verdisys, Inc.

Name	Age	Current Position	Year First Became Director
David M. Adams	52	President	N/A
John O'Keefe	55	Co-Chief Executive Officer Chief Financial Officer	N/A
John R. Block	69	Director	2000
Joseph J. Penbera, Ph.D.	56	Director	1999
Ronald J. Robinson, Ph.D.	57	Director	2002
Frederick R. Ruiz	60	Director	2000
O. James Woodward, III	68	Chairman of the Board	2000
Andrew G. Wilson	48	Vice President of Finance Treasurer	N/A

Statements below pertaining to the time at which an individual became one of our directors, executive officers or founders refers to the time at which the respective individual achieved his respective status with our predecessor in interest, Verdisys, Inc.

**David M. Adams** has served as our President and COO since January 2004, and became Co-Chief Executive Officer in May 2004. From 1989 to 2000, Mr. Adams served as General Manager of Baker Hughes, E&P Solutions, and from 2001 to 2004; he served as President and General Manager of Subsea Mudlift Drilling Co., LLC, a subsidiary of Hydril Co., LP. Mr. Adams has a degree in petroleum engineering from the University of Texas and is a registered Professional Engineer.

**John O'Keefe** has served as our Executive Vice President and CFO since January 2004 and became Co-Chief Executive Officer in May 2004. From 1999 to 2000, Mr. O'Keefe served as Vice President of Investor Relations of Santa Fe Snyder, and from 2000 to 2003, he served as Executive Vice President and CFO of Ivanhoe Energy. Mr. O'Keefe has a B.A. in Business from the University of Portsmouth, is a Chartered Accountant and graduated from the Program for Management Development (PMD) from the Harvard Graduate School of Business.

**John R. Block** has served as a director on our Board since May 2000. He currently serves as President of the Food Distributors International, an organization that represents the wholesale grocery and foodservice distribution industry. Prior to that, Mr. Block served as Secretary of Agriculture for the U.S. Department of Agriculture from 1981 to 1986. He currently serves as a director of John Deere and Co. and Hormel Foods Corp.

**Joseph J. Penbera, Ph.D.** co-founded our company and has served as a director on our Board since its inception in April 1999. Since 1985, he has been a Professor of Business at California State University, Fresno, where he previously served as Dean of the Craig School of Business. Dr. Penbera was Senior Economist at Westamerica Bank, Regency Bancorp and California Bank from 1999 to 2002. Dr. Penbera is on the board of directors of Gottschalks, Inc., a publicly traded regional department store and Rug Doctor, Inc. Dr. Penbera received his

Ph.D. from American University, his M.P.A. from Bernard Baruch School and his B.A. from Rutgers University.

- 21 -

---

**VERDISYS, INC.**

**Ronald J. Robinson, Ph.D.** was appointed as our interim President and CEO in December 2003 and has served as Chairman of our Board since January 2002. With the appointment of David Adams as President and Co-Chief Executive Officer, John O'Keefe as Co-Chief Executive Officer and Jim Woodward as Chairman of the Board, Dr. Robinson now serves only as Director. From 1996 to 2001, Dr. Robinson served as president of Texaco Technologies, a subsidiary of Chevron Texaco. From 2001 to 2003, Dr. Robinson was head of the Petroleum Engineering Department at Texas A&M University. Dr. Robinson currently serves as a director of Ensyn Group Inc. Dr. Robinson received his Ph.D. in Petroleum Engineering from Texas A&M University, an M.S. in Physics from Baylor University and a B.S. in Physics and Mathematics from the University of Southern Colorado.

**Frederick R. Ruiz** has served as a director on our Board since its inception in April 1999. He co-founded and is Chairman of the Board of Ruiz Food Products, Inc., a privately held frozen food company. Mr. Ruiz currently serves as a director of McClatchy Newspapers, Inc. and Gottschalks, Inc., each of which are publicly traded, the California Chamber of Commerce and the Hispanic College Fund.

**O. James Woodward III** has served as a director on our Board since its inception in April 1999, and was elected Chairman of the Board in May, 2004. From 1992 to 1999, Mr. Woodward was an attorney in private practice in Fresno, California. From 1995 to 2000, he was Chairman of MJ Construction Co., a Fresno, California based construction company, and from 2001 to 2003, he served as a consultant in Fresno, California. Mr. Woodward has been in private practice as an attorney since 2003 and is currently Of Counsel with Baker, Manock and Jensen. He currently serves on the board of directors of Gottschalks, Inc. Mr. Woodward received his M.B.A. from Stanford Graduate School of Business and his J.D. from the University of California, Berkeley Law School.

**Andrew G. Wilson** served as our CFO from March 2003 thru January 2004; he currently serves as Vice President of Finance. From March 1999 to December 2001, Mr. Wilson served as Novare Software, Inc.'s Vice President-Business Development and Chief Operating Officer, and from January 2002 to March 2003, he served as its Vice President-Consulting and Client Services. Mr. Wilson received his B.A. in Economics from University of Manchester, England. He is an English Chartered Accountant and passed the American Institute of Certified Public Accountants entry examinations.

All Directors will serve in such capacity until the next annual meeting of our shareholders and until their successors have been elected and qualified. The officers serve at the discretion of the company's Directors. There are no familial relationships among the our officers and directors, nor are there any arrangements or understanding between any of our directors or officers or any other person pursuant to which any officer or director was or is to be selected as an officer or director.

Verdisys, Inc. has group life, health, hospitalization, medical reimbursement or relocation plans in effect. Further, Verdisys, Inc. has a 401K savings plan in effect and agreements which provide compensation on the event of termination of employment or change in control of us.

Verdisys does pay members of our board of Directors fees for attendance at board and other committee meetings in the form of cash compensation or similar remuneration, and reimburses them for any out-of-pocket expenses incurred by them in connection with our business.

Currently, each independent director receives compensation of \$500 per month with an additional \$500 per month for chairing a committee with the exception of the audit committee chair who receives an additional \$1,000 per month. Meeting fees are paid at a rate of \$500 per day for regularly scheduled Board meetings. All independent directors receive options to purchase 12,000 shares per year.

- 22 -

---

**VERDISYS, INC.**

Edgar Filing: VERDISYS INC - Form SB-2

No non-compete or non-disclosure agreements exist between the management of Verdisys, Inc. and any prior or current employer.

All key personnel are employees or under contracts with of Verdisys, Inc.

The directors of Verdisys, Inc. are aware of no petitions or receivership actions having been filed or court appointed as to the business activities, officers, directors, or key personnel of Verdisys, Inc.

Verdisys, Inc. has not, nor proposes to do so in the future, make loans to any of its officers, directors, key personnel, 10% stockholders, relatives thereof, or controllable entities. No loans of any kind are currently contemplated between Verdisys, Inc. and any officer or director.

None of Verdisys, Inc.'s officers, directors, key personnel, or 10% stockholders has guaranteed or co-signed any bank debt, obligation, or any other indebtedness pertaining to Verdisys, Inc.

- 23 -

**VERDISYS, INC.**

**Security Ownership of Certain Beneficial Owners and Management**

The following table presents certain information regarding the beneficial ownership of our common stock as of March 31, 2004 by (i) each person who is known by us to own beneficially more than 5% of the outstanding shares of our common stock, (ii) each of our directors, (iii) our Named Executive Officers, and (iv) all directors and executive officers as a group. Each of the persons listed in the table has sole voting and investment power with respect to the shares listed.

Common Stock

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Owner	Acquirable	Percentage of Class (1)
Berg McAfee Companies 100600 N. De Anza Blvd., #250 Cupertino, California 95014	8,983,671	808,333	27.4%
Ronald J. Robinson Chairman and CEO	300,000	366,667	2.0%
David Adams President and COO	0	37,500	<1.0%
John O'Keefe Exec. VP & CFO	0	20,000	<1.0%
Andrew Wilson V.P. Finance, Treasurer and Secretary	25,208	507,396	1.6%
John R. Block Director	90,000	70,000	<1.0%
Joseph Penbera Director	863,952	70,000	2.8%
Fred Ruiz Director	265,334	70,000	1.0%
O. James Woodward III Director	122,000	70,000	<1.0%
Total Shares of 5% or more Beneficial Ownership	8,983,165 1,666,494	808,333 1,211,563	27.4% 8.8%

## Edgar Filing: VERDISYS INC - Form SB-2

Total Shares of Officers and Directors

as a group

Total Shares Issued and Outstanding: 30,792,036, if all exercised per note (1) 32,811,932

Notes:

(1) Each beneficial owner's percentage ownership assumes the exercise or conversion of all options, warrants and other convertible securities held by such person and that are exercisable or convertible within 60 days after March 31, 2004.

The following lists such beneficial owners and the amount of shares of common stock, of the number of shares shown in the preceding table, to which such beneficial owners have the right to acquire within the stated 60 day period:

Name of Beneficial Owner	Number of Shares Acquirable
Berg McAfee Companies	808,333
Ronald J. Robinson	366,667
David M. Adams	37,500
John O'Keefe	20,000
Andrew G. Wilson	507,396
John R. Block	70,000
Joseph Penbera	70,000
Fred Ruiz	70,000
O. James Woodward III	70,000

- 24 -

## VERDISYS, INC.

### Description of Securities

#### General

The following description of our common stock does not purport to be complete. For a complete description please refer to our certificate of incorporation and bylaws, which are included as exhibits to the registration statement of which this Prospectus forms a part, and by applicable provisions of California law.

#### Common Stock

We are authorized to issue up to 50,000,000 shares of common stock, no par value per share, of which 30,792,036 shares were issued and outstanding as of March 31, 2004.

Holders of shares of our common stock are entitled to share equally on a per share basis in such dividends as may be declared by our Board out of funds legally available therefore. There are presently no plans to pay dividends with respect to the shares of our common stock. Upon our liquidation, dissolution or winding up, after payment of creditors and the holders of any of our senior securities, if any, our assets will be divided pro rata on a per share basis among the holders of the shares of our common stock. The common stock is not subject to any liability for further assessments. There are no conversion or redemption privileges, nor any sinking fund provisions with respect to our common stock, and our common stock is not subject to call. The holders of our common stock do not have any pre-emptive or other subscription rights.

Holders of shares of our common stock are entitled to cast one vote for each share held at all stockholders' meetings for all purposes, including the election of directors. Our common stock does not have cumulative voting rights. Warrants included in this offering: The Company is registering the resale of common shares issuable upon exercise of a total of 177,835 warrants with the following terms:

9,501 warrants exercisable at 2.00 per share anytime through September 8, 2008. \$  
83,334 warrants exercisable at \$6.00 per share anytime through October 24, 2008.  
85,000 warrants exercisable at \$1.00 per share anytime through October 29, 2008.



*Shares Outstanding and Freely Tradable After Offering.*

As of March 31, 2004, we had 30,792,036 shares of our common stock outstanding. The shares to be sold by the selling stockholders in this offering will be freely tradable without restriction or limitation under the Securities Act, except for any such shares held our by [affiliates,] as such term is defined under Rule 144 of the Securities Act, which shares will be subject to the resale limitations under Rule 144.

*Rule 144.*

In general, under Rule 144, as currently in effect, a person (or persons whose shares are aggregated) who has beneficially owned shares for at least one year, including an affiliate of us, would be entitled to sell, within any three-month period, that number of shares that does not exceed the greater of 1% of the then-outstanding shares of our common stock or the average weekly trading volume in our common stock during the four calendar weeks immediately preceding the date on which the notice of sale is filed with the SEC, provided certain manner of sale and notice requirements and requirements as to the availability of current public information about us is satisfied. Affiliates of ours must comply with additional restrictions and requirements of Rule 144, other than the one-year holding period requirement, in order to sell shares of our common stock. As defined in Rule 144, an [affiliate] of an issuer is a person who, directly or indirectly, through the use of one or more intermediaries controls, or is controlled by, or is under common control with, such issuer. Under Rule 144(k), a holder of [restricted securities] who is not deemed an affiliate of the issuer and who has beneficially owned shares for at least two years would be entitled to sell shares under Rule 144(k) without regard to the limitations described above.

*Effect of Substantial Sales on the Market Price of our Common Stock.*

We are unable to estimate the number of shares that may be sold in the future by our existing shareholders or the effect, if any, that such sales will have on the market price of the common stock prevailing from time to time. Sales of substantial amounts of our common stock, or the prospect of such sales, could adversely affect the market price of our common stock.

- 25 -

---

**VERDISYS, INC.**

**Interest of Named Experts and Counsel**

Verdisys, Inc. did not hire or cause to be hired any "expert" or "counsel" on a contingent basis, whereas such "expert" or "counsel" would receive a direct or indirect interest in Verdisys, Inc.; or was a promoter, underwriter, voting trustee, director, officer, or employee of Verdisys, Inc.

**Disclosure of Commission Position on Indemnification for Securities Act Liabilities**

Every person who was or is a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or a person of whom he is the legal representative is or was a director or officer of the corporation or is or was serving at the request of the corporation for its benefit as a director or officer of another corporation, or as its representative in a partnership, joint venture, trust or other enterprise, shall be indemnified and held harmless to the fullest extent legally permissible under the general corporation law of the State of California from time to time against all expenses, liability and loss (including attorney's fees, judgments, fines, and amounts paid or to be paid in settlement) reasonably incurred and in advance of the final disposition of the action, suit or proceeding upon receipt of an undertaking by or on behalf of the director or officer to repay the amount if it is ultimately determined by a court of competent jurisdiction that he is not entitled to be indemnified by the corporation. Such right of indemnification shall be a contract right which may be enforced in any manner desired by such person; and shall not be exclusive of any other right which such directors, officers or representatives may have or hereafter acquire and, without limiting the generality of such statement, they shall be entitled to their respective rights of indemnification under any bylaw, agreement, vote of stockholders, provision of law or otherwise, as well as their rights under the Articles of Incorporation of Verdisys, Inc.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

- 26 -

---

## **VERDISYS, INC.**

### **Description of Business**

#### Forward-Looking Statements

Certain statements concerning the Company's plans and intentions included herein may constitute forward-looking statements for purposes of the Securities Litigation Reform Act of 1995 for which the Company claims a safe harbor under that Act. There are a number of factors that may affect the future results of the Company, including, but not limited to, (a) the ability of the Company to obtain additional funding for operations, (b) the continued availability of management to develop the business plan and (c) successful development and market acceptance of the Company's products.

This Prospectus may contain both historical facts and forward-looking statements. Any forward-looking statements involve risks and uncertainties. Moreover, future revenue and margin trends cannot be reliably predicted.

#### Business Development

In September 2000, the company was incorporated as Rocker & Spike Entertainment, Inc, a California corporation. Until December 31, 2000, operations consisted of organizational matters and the search for an operating company with which to perform a merger or acquisition. Effective January 1, 2001, the company purchased the assets and web domain of Accident Reconstruction Communications Network from its sole proprietor. Following the acquisition, the company changed its name from Rocker & Spike Entertainment, Inc. to Reconstruction Data Group, Inc. At that time, the company provided research, communication and marketing exposure to the accident reconstruction industry through our website and seminars.

In April 2003, the company entered into a merger agreement with Verdisys, Inc. ("Verdisys"). Verdisys was initially incorporated as TheAgZone Inc. in 1999 as a California corporation. Its purpose was to provide e-Commerce satellite services to agribusiness. They changed their name to Verdisys in 2001, and in 2003, with the acquisition of exclusive rights to a proprietary lateral drilling process throughout most of the U.S. and Canada, they changed their market focus to concentrate on services to the oil and gas industry.

The merger agreement with Verdisys called for us to be the surviving company. In connection with the merger, our name changed to Verdisys, our articles of incorporation and bylaws remained in effect, the officers and directors of Verdisys became our officers and directors, each share of Verdisys' common stock was converted into one share of our common stock, and our accident reconstruction assets were sold.

Verdisys' historical financial statements replaced ours. We now provide specialty services to oil and gas production companies located primarily in Oklahoma, Texas and Louisiana, and we have exclusive rights to the lateral drilling process throughout the vast majority of the U.S. and Canada.

#### Business Segments

Verdisys, Inc. currently operates in the oil and gas service industry in two distinct business segments. Our mission is to substantially improve the economics of existing and evolving oil and gas operations through the application of Verdisys licensed technologies.

Our primary segment is providing a service that enhances the recovery of oil and gas from new and existing wells. This service is performed by our specially fabricated mobile drilling rigs equipped to utilize a proprietary lateral drilling system known as Verdisys Lateral Drilling Services, or VLDS. With VLDS, we offer drilling services

up to 300 feet horizontally from an existing well bore, in selected formations, down to a depth of 5,800 feet. We can provide our services in a few days at a fraction of the cost of conventional methods. The combination of low front-end costs, effectiveness and speed of the process should make VLDS attractive to oil and gas companies. We believe that there exists a large potential market in North America for the application of the VDLs technology. Our secondary business segment is providing satellite services to oil and gas producers, allowing them to remotely monitor and control well head, pipeline and drilling operations. Using satellite, and other wireless technology, we provide oil and gas producers the ability to dispense with a manual structure and move to a real-time, automated, energy management program. With our services, production levels can be optimized to respond to current market conditions and commitments.

- 27 -

---

## **VERDISYS, INC.**

### Industry

Verdisys, Inc. operates in the oilfield service industry. This industry provides a wide range of services to oil and gas companies including exploration support, equipment supply, construction, logistics, drilling and completion, production enhancement, etc. The oil and gas industry out sources service functions to augment its in-house capability and to take advantage of the expertise of the specialty service providers.

The energy industry is comprised of a diversity of operators, ranging from the very small to the extremely large. While the major portion of oil and gas production is provided by large international oil companies, there are also a large number of smaller independent companies which own the vast majority of existing wells.

The services industry includes a large number of smaller companies which focus on serving smaller producers or providing specialized services to the large ones. We are one of the latter category and will be providing lateral drilling and satellite services to both small and large companies. We have positioned ourselves to cater to all segments of the industry in situations where the application of our services can add value.

Demand for our services depends on our ability to demonstrate improved economics to the oil and gas production sector we serve. We believe that they will use our lateral drilling service where it costs less than alternative services and/or when it generates additional revenue. It will also be driven by macro-economic factors driving oil and gas fundamentals. The report of the Energy Information Agency of the U.S. Department of Energy entitled "International Energy Outlook 2000" forecasts that world oil consumption will increase at an annual rate of approximately 2% through 2020 and that world gas consumption will increase at an annual rate of approximately 3% over the same period. The projected increase in demand for oil is based on worldwide economic and population growth, primarily in developing countries. The projected increase in gas consumption over this period is expected to result from higher demand across residential, industrial and commercial sectors, as well as from the increasing use of gas as a source of fuel for electric power generation, particularly in North and South America. We also believe that reliance on traditional sources of oil and gas will be limited due to the inadequate delivery infrastructure and political unrest in major supplying countries.

According to the Wall Street Journal, June 20, 2003 "The good news is that America is swimming in gas: The U.S. Geological Survey estimates there are 1,400 Tcf of recoverable gas resources in the U.S. enough to last decades" "But most of it is off-limits to recover because of restrictive environmental rules and lawsuits." This is particularly the case with drilling moratoriums on the East and West Coasts of America, parts of the Rocky Mountain Area and Alaska. The American Petroleum Institute advocates "A multi-pronged approach is essential for meeting future U.S. natural gas demand: (1) using energy wisely and conserving where possible; (2) developing more U.S. supplies; (3) diversifying supplies through pipelines to bring Arctic gas to consumers; (4) facilitating more liquefied natural gas (LNG) imports. Obviously (3) and (4) are going to take time to develop, are expensive, face significant regulatory problems and political opposition. A more immediate impact can be made by developing more U.S. supplies. Developing such supplies is dependent on drilling new wells in existing fields, or new reserves in expensive less accessible fields. The alternative to growing domestic supply is to build the infrastructure and logistics to be able to import large quantities of LNG from overseas. Verdisys believes its lateral drilling technology can access previously uneconomic reserves and bring them to market cost effectively thereby helping to resolve this supply/demand imbalance.

The Office of Fossil Energy, U.S. Department of Energy, estimates there are nearly 500,000 oil wells and 230,000 natural gas wells that are marginal or classified as "stripper" wells. These stripper wells produce either 15 barrels or less of oil a day or 60 thousand cubic feet of gas or less a day. Although low producing stripper wells account for the "same of the amount of oil that America imports from Saudi Arabia" according to the Office of Fossil Energy "Together (stripper wells) account for 1.25 trillion cubic feet of natural gas, or about 8 per cent of the natural gas produced". Such wells are potentially considered uneconomic or marginal with the strong potential of being abandoned due to poor production economics. Indeed approximately 150,000 marginal wells were abandoned between 1993 and 2000 "costing the U.S. more than \$3.5 billion in lost economic output" according to the Office of Fossil Energy. In seeking to revitalize marginal and stripper wells both the Department of Energy and American Petroleum Institute have emphasized the need for new technologies to access more of the reserves available. Verdisys has the ability to leverage existing facilities rather than drilling new wells. With its unique lateral drilling technology, Verdisys can provide potentially improved recovery rates rather than leaving a field because of the depletion of oil or natural gas. Production companies now have the ability to enhance the pay zones through lateral drilling to significantly extend economic field life.

- 28 -

---

## **VERDISYS, INC.**

We believe that producing companies will react to the combination of the increased demand and the decreased supply of oil and gas in a manner that requires them to utilize both segments of our business. We believe that oil and gas producers have great economic incentive to recover additional production and reserves from known reservoirs rather than pursuing a more risky exploration approach. Our extraction methods permit producers to add value by potentially recovering a significant additional percentage of the oil and gas from a reservoir. We believe that there exists a large potential market in North America that comprises logical candidates to apply our lateral drilling method.

Activity in the energy services industry tends to be cyclical with oil and gas prices. In addition to the currently positive industry fundamentals, we believe the following sector-specific trends enhance the growth potential of our business:

- While oil prices are unpredictable, they have remained and are projected to remain relatively high by historic terms for several years. Continuing high consumption, limitations in delivery infrastructures and political unrest in major supplying countries are expected to be contributing factors.
- Natural gas prices are projected to remain high for several years due to the combination of strong demand and major supply constraints. About one-half of U.S. reserves have been depleted with the remainder increasingly expensive and difficult to reach. Significant new supplies from Alaska and the Canadian north require the construction of new pipelines which are estimated to be several years away. The situation is serious enough that Federal Reserve Bank Chairman Greenspan has expressed concern as to its effect as a constraint to US economic growth.
- There is no substitution threat to oil and gas in the foreseeable future. In particular, any significant substitution by hydrogen is believed to be some decades away.

### Lateral Drilling Services

Verdisys Lateral Drilling Service [VLDS]

Our VLDS segment is our primary business. The process can be equally applied to new and existing wells. We operate specially fabricated drilling rigs equipped with VLDS, a patented horizontal jetting technology licensed to us on exclusive basis for the vast majority of the U.S. and Canada from the inventor, Carl Landers. We have the ability to access previously uneconomic reserves and bring them to market at cost effective prices, due to our unique and environmentally sound drilling process. These services and our small fleet of drilling rigs have appeal for both small independent operators as well as large integrated companies.

In the U.S. and Canada, we have the rights to provide oil and gas companies with a proprietary lateral drilling service utilizing specially fabricated mobile drilling rigs. This technology is protected by three issued patents. Verdisys has acquired the rights to the vast majority of the North American market for this drilling technology that has great potential for increasing the production of oil and gas

A significant volume of the known oil and gas in the U.S. remain untapped in existing well bores. By extending 2-4 channels up to 300 feet in 4 or more directions from the casing of the well at any given depth, the Verdisys drilling solution provides an economic way to enhance production levels of existing reservoirs, thereby reducing the need for new or foreign sources of oil and gas. The lateral drilling operation uses a patented ultra-high pressure water jetting process, which is capable of drilling lateral holes from existing wells up to 300 feet in length in wells as deep as 5,800 feet.

With this technology, Verdisys has the ability to drill up to 4 or more laterals in only two days into an existing pay zone at an average price ranging from \$35,000 to \$45,000 per well depending upon the size of the project. Specialized drilling competitors typically charge an average of \$250,000 to drill horizontally in only one direction and in only one horizon and require up to two weeks per well. Verdisys' ability to target new or previously untapped deposits makes its technology potentially very compelling.

- 29 -

---

## **VERDISYS, INC.**

At these lower comparative costs, Verdisys has made it feasible to enhance production from a large potential market in North America that would otherwise be cost prohibitive to recover. The existing oil and gas independent producers in North America are potential customers of this patented lateral drilling service. According to the Department of Energy Report "Natural Gas Fundamentals, June, 2003, there are "Over 7,000 small independent businesses (that) drill 85% of wells and produce 65% of natural gas in the U.S. " from over 350,000 U.S. wells." All 7,000 independent producers are potential customers for the service.

In the same report it estimates 10,000 to 15,000 new natural gas wells are drilled and completed each year costing anywhere from less than \$100,000 to several million. These new wells are necessary just to replace depleted supplies from existing wells in an effort to maintain current U.S. production levels. Verdisys' lateral drilling service directly competes with the need for new wells by laterally drilling from existing wells to extend the pay zone and bring new supplies through existing well bores. By extending the accessibility of reserves through the existing well Verdisys' technology can negate the need for new wells to be drilled in existing fields. This is not only compelling economically but also is very environmentally friendly in using previously established well bores rather than drilling new holes.

With VLDS, we believe we can provide an economic production recovery service. With conventional horizontal drilling, the transition from drilling vertically to horizontal drilling may take 200 feet or more and take many days to accomplish. Verdisys, with its patented technology, can make this transition in 2 feet instead of the industry normal of 200 feet and do it in a matter of minutes not hours. This enables Verdisys to be more precise in targeting and staying within specific pay zones for a potentially significant enhancement to the production of the well.

Many of the nation's old oil and gas fields contain new infield reservoir compartments and bypassed pockets of reservoirs that have not been economic to produce. VLDS will make it economically viable to produce from those deposits for the first time.

- 30 -

---

**VERDISYS, INC.**

VLDS utilizes patented technology in the areas of the design and manufacture of the Deflecting Shoe and the process of high pressure water jet drilling. The figure below more precisely illustrates the process.

Verdisys lateral drilling (VLDS) works on both new and existing wells. Where VLDS may have greater attraction, though, is on marginal wells that may be otherwise ready to be abandoned because they are no longer economically viable. The strong market potential is that this reduces the continual need for more exploration, new drilling and denser infield drilling. Such fields that may be ready to be abandoned and have remaining resource potential can have their production re-established and their economic lives extended.

- 31 -

---

**VERDISYS, INC.**

The figure below demonstrates how lateral drilling can drastically expand the production area within a given field relative to vertical wells. An average well will recover petroleum from an area of up to 120 feet from the well bore. However, each VLDS Lateral extends up to 300 feet from the well bore, thus potentially increasing the area of production several fold.

Features of Lateral Drilling:

- The lateral drilling process is fast. Average time the rig is on the well is only two days.
- Cuts a two inch diameter hole horizontally up to 300 feet from the well bore in multiple directions.
- Lateral holes can be drilled at several vertical producing horizons down to 5,800 feet.

Potential Benefits:

- Increase production rate and recoverable reserves from marginal wells.
- Improves injection rates in water disposal/injection wells.
- Allows directional treatment of wells with acid, steam, CO<sub>2</sub>, etc.
- Allows multi-layer application in thicker reservoir zones.
- Enhances recovery most effectively on old, low productivity wells.
- Provides an economic alternative to denser infield drilling programs.
- Dispenses with large, expensive rotary rigs.
- Dispenses with mud pits that can damage the environment.
- Dispense with casing milling equipment.
- Dispenses with additional stimulation.
- Rapid drilling rates limit the time the well is out of production.
- Dispenses with logging expense and the need to change well-bore configuration.

**VERDISYS, INC.**

Major Customers

When the Company commenced its lateral drilling operations in 2003 it was dependent upon three customers, two of which were related parties, and one that had no experience in the oil and gas industry. Since that time it has discontinued doing business with two of the customers due to disputes regarding the services performed and payment for those services, and has revised its contract with the third.

In January, 2004 the Company changed its customer focus to small to medium size independent oil and gas production companies seeking to enhance production from their existing fields in the U.S. and Canada. It also adopted a new business model that emphasizes a payment for services rather than production participation rights. To date the Company has signed pilot contracts to perform drilling services for Amvest Osage, Inc., Esperada Energy Partners, L.L.C. and Maxim Energy, Inc. It is also in discussion with a number of other Companies regarding pilot projects to prove out the technology with a view to further work. The Company expects to continue such focus for the balance of fiscal year 2004.

#### Customer Acceptance

The Company is encouraged by the level of interest from several customers in the lateral drilling technology as it relates to both conventional oil and gas production as well as coal bed methane opportunities. Recent experience in Oklahoma revealed that, due to operator error and possible equipment issues, the Company did not completely mill through the casing of certain wells. Based on the testing to date, certain wells showed modest improvement in natural gas volumes while other wells failed to show any improvement. Verdisys plans to re-drill certain wells to gain additional insight and to perfect the technique.

The Company has instituted a successful above-ground milling test, which visually demonstrated that improved operating procedures will resolve the milling issue. The Company plans to make continued improvements to the technology and operating procedures in order to provide its customers with a quality, value added and consistent service.

#### Market

The United States was the world's largest consumer of natural gas in 1999 according to the World Energy Council's Survey of Energy Resources, consuming 21.7 trillion cubic feet (Tcf) of Natural Gas or 26 per cent of the World's total consumption. Natural Gas meets 24 per cent of U.S. energy requirements according to the American Petroleum Institute and heats 61 per cent of U.S. households. Natural Gas, as a clean and efficient fuel, has become ubiquitous to the American lifestyle in heating the home, cooking, drying clothes and running cars. The advent of the additional need for electricity in America has also spawned heavy demand from Power Plants along with traditional users in pulp and paper, cement and asphalt, chemicals, plastics and petroleum refining. In the last several years 95 per cent of the new power generation capacity in the U.S. was fueled by natural gas, according to the U.S. Department of Energy 2003 Report.

The U.S. Department of Energy expects U.S. demand to grow at 1.5 per cent per year between 2001 and 2025 representing a 50 per cent growth from 23 Tcf to 35 Tcf. "Today, domestic supplies meet 84 per cent of our Nation's natural gas requirements, with nearly all of the balance coming from Canada," according to the U.S. Department of Energy Report, "But future natural gas consumption is expected to increase more rapidly than domestic production." "In 2001 about 19.5 Tcf of natural gas was produced from over 350,000 U.S. wells" according to the same report, "Most production came from Texas (26%), Gulf of Mexico (8%) and Oklahoma, Louisiana and Wyoming (7% each). However, according to the American Petroleum Institute U.S. production has been "essentially flat for the past two decades".

Indeed, to Business Week in their March 1, 2004 edition said "Demand for clean-burning natural gas has marched steadily upwards during the past two decades, and the output from North American gas fields hasn't kept pace. Last year, in fact, U.S. production fell by 3%, while demand rose 2.2%. Prices have doubled since the 1990s, to around \$5 per thousand cubic feet (mcf)." The ability of the United States to meet such demand will have a major effect on the economy for the next two decades. How will the U.S. meet the supply shortfall?



Competition

Verdisys' lateral drilling service directly competes with the need for new wells by laterally drilling from existing wells to extend the recovery from the pay zone and bring new supplies through existing well bores. By extending the accessibility of reserves through the existing well bores, Verdisys' technology can negate the need to drill more densely spaced wells in existing fields. This is not only compelling economically but also is very environmentally friendly in using previously established wells rather than drilling new ones.

Source: Department of Energy - Natural Gas Fundamentals, June, 2003

We operate in a niche that lies below the more expensive and higher impact horizontal drilling business and the much cheaper and lower impact perforation business. Our lateral drilling service can provide significant reservoir exposure, and therefore greater production potential, like horizontal drilling at closer to the cost of the perforation service.

Conventional horizontal or directional drilling is slow and significantly more expensive to the extent that it is only being used if its much longer drilling radius was required as is necessary in offshore or environmentally sensitive areas. Companies offering this service include Halliburton, Baker Hughes, Schlumberger and other independent drilling companies. They traditionally drill one lateral through the existing well bore. That lateral can take over 200 feet to achieve the turn to the horizontal and be limited to only one "pay" zone. It usually costs over \$250,000 and positive financial returns require very high producing rates.

Other water jet drilling methods in use have a limited radius of about 10 feet and can be repeated 4 or more times in any direction around the well bore. The competitive advantage of the Verdisys system is sustainable through the life of the patents. A key patent involving the nozzle design was issued in 1998. A further patent was issued in 2003 covering a variation of the process and further patents can be expected as the process is further refined to extend its range, depth, and other capabilities.

**VERDISYS, INC.**

Our VLDS offers several advantages over conventional oil and gas recovery enhancement services provided by our competitors because:

The lateral drilling process is fast. Average time the rig is on the well is two days.

It cuts a two inch diameter hole horizontally up to 300 feet from the well bore.

Lateral holes can be drilled at numerous vertical producing horizons.

It increases production rate and recoverable reserves.

There is no need for large, expensive rotary rigs.

There are no mud pits that may damage the environment.

Casing milling equipment is not necessary.

Logging expenses are not required.

Additional stimulation services such as acidizing may be substituted by VLDS.

However, many of our competitors are better financed, equipped and staffed than Verdisys, Inc.

Satellite Services

The Satellite Private Network (SPN) services utilize two-way satellite broadband to provide oil and gas companies with a wide variety of remote energy management applications. Our satellite services can be optimized to provide cost effective applications such as Voice over Internet (VoIP), Virtual Private Networking (VPN) and Real-time Supervisory Control and Data Acquisition Systems, commonly referred to as SCADA. SCADA permits oil and gas companies to dispense with a manual structure and move to a real-time, automated, energy management program. Utilizing SCADA, production levels can be optimized to meet current market conditions and commitments. At present, the Company is shipping modem hardware from ViaSat and Spacenet, space segment services from SES and Loral and hub services from Spacenet and Immeon. The current product line supports QoS (Quality of Service), multiple protocols, including the ones most used for Point of Sale and SCADA.

SPN uses satellite communications that are low cost and that ensure worldwide availability, even in geographic areas with a poor communications infrastructure. SPN is based on industry standards to lower implementation costs and to simplify the integration into existing systems. Reliability and availability are critical considerations for SCADA. SPN is provided twenty four hours a day seven days a week with 99.99% availability virtually anywhere in the world and there are fewer points of failure than comparable terrestrial services. It provides uniform service levels, and is faster and more cost effective to deploy. SPN is also very flexible and easily accommodates site additions, relocations, bandwidth expansion, and network reconfiguration.

Additionally, security, integrity, and reliability have been designed into SPN to ensure that information is neither corrupted nor compromised. SPN communications are more secure than many normal telephone lines.

Verdisys Satellite Private Networks, or SPN, allow energy companies to control their production effectively by providing worldwide real-time access to information. SPN enables real-time Supervisory Control and Data Acquisition and provides a new opportunity for energy companies to automate functions that are currently manual. Applications include oil and gas exploration, production, refining, power distribution, and many other related energy management functions.

It is common practice today to gather much of the data involved in energy management manually. This is not only expensive but also causes a significant time lag in the availability of critical management information. Supervisory control also has many manual components that raise costs and cause companies to be unable to react quickly to problems or changing market conditions.

The local site utilizes Wi-Fi, a wireless Local Area Network (LAN) that provides high-speed data transmission at less than \$300 average cost per connection. Wi-Fi is inherently flexible and does not incur the normal high wiring costs of a cable LAN. Internet connections are also used to provide maximum flexibility and to reduce costs.

SPN provides uniform service levels, and is faster as well as more cost effective to deploy. SPN is also very flexible and easily accommodates site additions, relocations, bandwidth expansion, and network reconfiguration.

Secure encryption is used and the Wi-Fi implementation does not allow access to unauthorized users. SPN is based on industry standards such as TCP/IP and IEEE802.11b to lower implementation costs and to simplify the integration into existing systems.

- 36 -

---

## **VERDISYS, INC.**

### Major Customers

Our current satellite services customers include Apache Corporation with 40 remote sites, British Petroleum with 9 remote sites and Noble Energy with 25 remote sites. Contracts are usually for hardware, backhaul, and 36 months of bandwidth. The Company is dependent upon a small number of customers which tend to be large companies with extensive remote operations. However, virtually any oil and gas producer, of which there are thousands, is a potential customer for our satellite services.

### Market

There are an estimated 1.7 million petroleum wells that could benefit from the economics of Verdisys' high speed connectivity services. The Company's focus is serving the needs of oil and gas producers worldwide to control their production effectively and to enhance customer satisfaction by providing worldwide real-time access to information. This market for satellite services is very competitive with increasing pressure on margins as Verdisys' larger competitors offer services at substantially discounted prices. Verdisys attempts to compete against such competitors by addressing niche market needs and offering alternative solutions that solve customers' more difficult communication problems at more cost effective rates. Verdisys utilizes satellite, Wi-Fi and other wireless technology for the last mile of wellhead connectivity for these customers and focuses almost exclusively on the oil and gas market. The common denominator throughout is MPLS/ATM (Multiple Protocol Label Switching) network transport services.

### Competition

The satellite communication industry is intensely competitive due to overcapacity, but the competition is less severe in the oil and gas producing sector. Other satellite services providers in the oil and gas industry include Petrocom, Stratus, and Caprock. Caprock and Stratus are focused on the top 5% of the market, particularly offshore platforms, and Petrocom is focused on the offshore market using a traditional wireless network. Our satellite services offer advantages over those services by:

- Customizing the provided service to better meet the customer's needs;
- Offering superior speed;
- Providing single vendor convenience; and
- Offering lower up-front infrastructure and operating costs.

### Patents

On April 24, 2003 we entered into an agreement to license the Landers Horizontal Drilling Process, based on U.S. Patent Nos. 5,413,184, 5,853,056, and 6,125,949 relating to certain oil and gas well production enhancement techniques and devices and related trade secrets with the inventor and holder of the patents and trade secrets, Carl Landers. The license gives us exclusive rights to apply the technology in all of the U.S. (except for part of Colorado West of the Rockies, and Utah) and Canada to use the Landers Horizontal Drill and the related trade secrets. Mr. Landers also reserves the rights to certain applications in which he has a direct interest. The license terminates upon the expiration of the underlying patents, the earliest date being October 1, 2013. We amended the license on September 4, 2003, to provide for consideration to Mr. Landers of a fixed amount of \$500 for every well drilled in which the Landers Horizontal Drill method is utilized, instead of the original 10% royalty payment, and 500,000 shares of our restricted common stock. In addition, in exchange for a reduction of the note payable associated with the license from \$2,750,000 to \$2,500,000, we issued an additional 125,000 shares of our restricted common stock and agreed to register the shares in a subsequent Registration Statement. Additionally, Mr. Landers was appointed as one of our directors for the duration of the license, subject to shareholder approval. He has since resigned his appointment.

We amended the license again in February 2004 when \$1,695,000 of outstanding payment obligations to Mr. Landers for technology fees were waived in exchange for the issue of 300,000 common shares in Verdisys, Inc. and the payment of \$100,000 in cash and the promise to pay \$400,000 in cash prior to May 15, 2004. The final payment was made on May 14, 2004. The Company also agreed to register the 500,000 common shares previously granted in a subsequent Registration Statement.

- 37 -

---

### **VERDISYS, INC.**

The licensor retains some self use rights but may not compete with the licensee. Any improvements to the technology remain the sole property of the licensor but are provided to Verdisys without additional licensing fees.

The lateral drilling technology and related trade secrets are instrumental to our competitive edge in the oil and gas service industry. We are committed to protecting the technology. We cannot assure our investors that the scope of any protection we are able to secure for our license will be adequate to protect it, or that we will have the financial resources to engage in litigation against parties who may infringe on our exclusive license. We also can not provide our investors with any degree of assurance regarding the possible independent development by others of technology similar to that which we have licensed, thereby possibly diminishing our competitive edge.

### Governmental Regulation

Our operations are subject to various local, state and federal laws and regulations intended to protect the environment. Our operations routinely involve the handling of waste materials, some of which are classified as hazardous substances. Consequently, the regulations applicable to our operations include those with respect to containment, disposal and controlling the discharge of any hazardous oilfield waste and other non-hazardous waste material into the environment, requiring removal and cleanup under certain circumstances, or otherwise relating to the protection of the environment. Laws protecting the environment have become more stringent in recent years, and may in certain circumstances impose strict liability, rendering a party liable for environmental damage without regard to negligence or fault on the part of such party. Such laws may expose us to liability for

the conduct of, or conditions caused by, others, or for our acts, which were in compliance with all applicable laws at the times such acts were performed. Cleanup costs and other damages arising as a result of environmental laws, and costs associated with changes in environmental laws could be substantial and could have a material adverse effect on our financial condition. Management believes that it conducts our operations in substantial compliance with all material federal, state and local laws as they relate to the environment. Although we have incurred certain costs in complying with environmental laws, such amounts have not been material to our financial results.

We depend on the demand for our products and services from oil and natural gas companies. This demand is affected by changing taxes, price controls and other laws relating to the oil and gas industry generally, including those specifically directed to oilfield operations. The adoption of laws curtailing exploration and development drilling for oil and natural gas in our areas of operation could also adversely affect our operations by limiting demand for our products and services. We cannot determine the extent to which our future operations and earnings may be affected by new legislation, new regulations or changes in existing legislation regulations or enforcement.

#### Employees

As of December 31, 2003, we had less than 10 full-time employees. A new president and chief financial officer were brought into the Company in January 2004. We also utilize a number of independent contractors and consultants to assist us conducting the drilling operations, installing the telecommunications equipment, maintaining and supervising such services, and the like, in order to complement our existing work force, as needed from time to time. Our agreements with these independent contractors and consultants are usually short-term. We are not a party to any collective bargaining agreement with any employees, and believe relations with our employees, independent contractors and consultants are good.

- 38 -

---

## **VERDISYS, INC.**

### **Management's Discussion and Analysis or Plan of Operation**

The following discussion does not purport to be complete and should be read in conjunction with the Financial Statements and Notes thereto included in this report. This discussion contains certain forward-looking statements that involve substantial risks and uncertainties. When used in this report the words "anticipate," "believe," "estimate," "expect" and similar expressions as they relate to our management or us are intended to identify such forward-looking statements. Our actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. Historical operating results are not necessarily indicative of the trends in operating results for any future period.

#### Overview

On July 18, 2003, Reconstruction Data Group, Inc. and Verdisys merged with and into one another. The merger agreement with Verdisys called for us to be the surviving company. Immediately following the merger, our name changed to Verdisys, our articles of incorporation and bylaws remained in effect, the officers and directors of Verdisys became our officers and directors, each share of Verdisys' common stock was converted into one share of our common stock, and our accident reconstruction assets were sold. Additionally, Verdisys' historical financial statements replaced ours.

### ***Three Months Ended March 31, 2004***

#### Financial Summary

Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003

Verdisys incurred \$205,908 in revenues and a net loss of \$2,319,263 for the quarter ended March 31, 2004 as compared to revenues of \$136,448 and net loss of \$239,295 for the quarter ended March 31, 2003. Revenues increased as a result of an increase in lateral drilling service revenues for the quarter, which offset a decline in

satellite service revenues. There were no comparable lateral drilling revenues in 2003 as the license to the Landers lateral drilling technology was acquired in April 2003. The Net Loss increased as a result of higher selling, general and administration expenses associated with the start up of the lateral drilling services business, an increase in management personnel, liquidated damages resulting from the failure to file a timely registration statement and non cash compensation expense associated with the renegotiation of the Landers note payable.

In January, 2004 the Company focused on small- to medium-sized independent oil and gas production companies seeking to enhance production from their existing fields in the U.S. and Canada. It also adopted a new business model that emphasizes a payment for services rather than production participation rights. To date, the Company has signed contracts with the following independent oil and gas companies; Amvest Osage, Esperada Energy Partners, and Maxim Energy. The Company expects to continue such focus for the balance of fiscal year 2004.

#### Revenues

##### Lateral Drilling Services

Lateral Drilling Services' revenues were \$114,158 and \$0 for the three months ended March 31, 2004 and three months ended March 31, 2003, respectively. The increase in revenues for the quarter was primarily associated with revenues from the commencement of the Amvest Osage contract and recovery of certain third party expenses from related parties.

During the quarter ended March 31, 2004, the Company modified its agreement with Natural Gas Systems, Inc. ("NGS") to provide drilling services for four (4) wells in the Delhi field in Louisiana and eliminate any economic interest in future production of NGS's wells. The Company did not perform any drilling under the contract for the quarter ended March 31, 2004. Mr. McAfee, a director until February 9, 2004, and other affiliates have a 23.0% beneficial ownership in Natural Gas Systems, Inc. and as such any revenue associated with the contract will be disclosed as a related party transaction.

During the quarter ended March 31, 2004, the Company amended its note payable under the lateral drilling license agreement with Carl Landers. The license with Mr. Landers was amended to require the balance of any sums outstanding relating to the note be paid in the form of 300,000 shares of common stock, immediate payment of

- 39 -

---

#### **VERDISYS, INC.**

\$100,000 and a final payment of \$400,000 on or before May 15, 2004. In addition the Company agreed to register the 500,000 common shares previously granted in its next Registration Statement. The Company made the final payment on the license on May 14, 2004.

##### Satellite Communications Services

Satellite Communication Services' revenues for the quarter ended March 31, 2004 were \$91,750 compared to the quarter ended March 31, 2003 of \$136,448. Revenue decreased in the quarter due to lower hardware sales of satellite equipment. As hardware is sold, Verdisys recognizes the revenue in the period it is delivered to the customer. The bandwidth revenue is amortized over the period benefited. Cash collected for bandwidth is recorded as deferred revenue. At March 31, 2004 there was \$466,434 reflected in balance sheet as deferred revenue relating to Satellite Communications.

#### Net Loss

The Net Loss increased as a result of higher selling, general and administration expenses associated with the start up of the lateral drilling services business, an increase in management personnel, liquidated damages resulting from the failure to file a timely registration statement and non-cash compensation expense associated with the renegotiation of the Landers note payable.

#### Liquidity and Capital Resources

## Capital Expenditures

The Company took delivery of two additional lateral drilling rigs in the quarter bringing its total fleet to 4 rigs.

## Liquidity

As of March 31, 2004 the Company's cash balance was \$333,161. As noted in the Independent Auditors Report (See Financial Note 2 to the December 31, 2003 Financial Statements) due to the continued substantial operating losses that the Company has incurred raises substantial doubt as to the Company's ability to continue as a going concern. The Company is in an early stage of development and is rapidly depleting its cash resources, therefore it has determined that it will need to raise additional financing in the short term to continue in operation and fund future growth. The Company is also incurring liquidated damages up to a cap of \$400,000 related to the timing of providing registration rights for the private financing that it arranged in November 2003. If we are unable to finance the liquidated damages, this would have a material adverse effect on the Company.

The Company currently plans to raise additional financing in the quarter ending June 30, 2004. The use of stock for currency in financing or making acquisitions may be heavily curtailed while the Company is under SEC investigation. (See Financial Note 16 to the December 31, 2003 Financial Statements) If we are unable to arrange new financing or generate sufficient revenue from new business arrangements, the Company will be unable to continue in its current form and will be forced to restructure or seek creditor protection.

## Subsequent events

In May 2004, Verdisys issued 139,500 shares of common stock for \$279,000 in a private placement for \$2 per share. Two year warrants to purchase 55,800 common shares at \$2 per share were attached to the common stock. The proceeds will be allocated between the common stock and the warrants based on their respective relative fair values.

In May 2004, Verdisys borrowed \$185,000 under one year promissory notes with interest of 8%. 37,000 warrants to purchase common shares at \$2 per share were attached to the notes. The notes will be discounted for the relative fair value of the warrants. The majority of these funds were received from officers and directors of Verdisys.

The funds raised during the quarter were primarily utilized in paying the final installment on the note associated with the lateral drilling license.

- 40 -

---

## **VERDISYS, INC.**

### *Fiscal Year ended December 31, 2003*

#### Financial Summary

#### *Fiscal Year ended December 31, 2003 Compared to the Fiscal Year Ended December 31, 2002*

We had \$885,441 in revenues and \$7,356,045 in net losses for the year ended December 31, 2003 as compared to \$287,190 in revenues and \$3,128,782 in net losses for the year ended December 31, 2002. The significant increase in revenues for the year ended December 31, 2003 was due to lateral drilling services utilizing our proprietary lateral drilling technology for which we commenced recognizing revenue in 2003. Initial start-up costs and low initial operating margins adversely affected total cost of services provided resulting in a negative gross margin of \$717,228 for the year ended December 31, 2003. The deferral of a significant amount of revenue relating to the lateral drilling services that the Company is currently attempting to substantiate also had a negative effect on the gross margin for the year. The Company increased selling, general and administrative expenses for the year ended December 31, 2003 as it expanded its operations and incurred several non-recurring expenses. This contributed to significantly increased losses for the year. There were no comparable lateral drilling revenues in 2002 as the license to the proprietary lateral drilling technology was acquired in April 2003.

In January, 2004 the Company focused to small to medium size independent oil and gas production companies seeking to enhance production from their existing fields in the U.S. and Canada. It also adopted a new business model that emphasizes a payment for services rather than production participation rights. The Company expects to continue such focus for the balance of fiscal year 2004.

### Revenues

#### Lateral Drilling Services(See Financial Notes 3 and 22)

Lateral Drilling Services' revenues were \$465,194 and \$0 for the year ended December 31, 2003 and the year ended December 31, 2002, respectively. During the fourth quarter, we drilled 7 wells located in the Monroe Field with our proprietary drilling rigs. These wells were drilled for two related party Companies, Energy 2000 NGC, Inc. (E2000) and Natural Gas Systems, Inc. (NGS) in the period from October, 2003 through December 2003 by a subcontractor utilizing the first of the Company's new drilling rigs. These services have been substantiated by the Company. The Company also drilled an additional 6 wells for Energy 2000 and 29 wells for Edge Capital Group, Inc. in the second and third quarters of 2003. These additional wells were drilled by different third party subcontractors utilizing the Carl Lander's drilling rigs. The Company has not been able to substantiate whether the services, if any, were performed. Consequently, no revenue has been recognized for the performance of these services. The Company continues to investigate whether it can substantiate and invoice for these services. Edge Capital Group, Inc. has paid the Company \$497,000 for services performed which the Company has deferred recognition of at this time and Edge Capital is disputing whether the service was performed. No revenue was recognized relating to the Energy 2000 wells.

- 41 -

---

### **VERDISYS, INC.**

E2000 is a subsidiary of Berg McAfee Companies. Berg McAfee Companies beneficially owns 27.3% of our outstanding common stock. Additionally, Eric McAfee, 50 per cent co-owner of Berg McAfee Companies beneficially owns 0.7% of our outstanding common stock and Clyde Berg, 50 per cent co-owner of Berg McAfee Companies, beneficially owns 1.2% of our outstanding common stock; therefore, Messrs. McAfee and Berg have a total beneficial ownership of 29.2% of our outstanding common stock.

In addition to the fee of \$65,000 per well for our drilling services, we will receive an 80% interest in the net operating income from E2000's portion of the properties' income (the "E2000 Royalty") after E2000 has fully recovered all drilling service fees, capital expenditures, including the cost of acquiring the property, and related expenses incurred for all wells drilled as part of the contract. The E2000 Royalty will be calculated as 80% of the net lease after recovery by E2000 and/or its third party financing sources of E2000's costs related to the drilling services, including principal, interest, fees and costs for financing such drilling services, cost of acquisition of the lease, land owner royalties or other royalties to third parties other than E2000 or us, and field operating costs. Therefore, after completion of the re-development of the field, E2000 will secure for us an 80% listing with the gatherer for direct payment of net proceeds. It is not anticipated that we will receive any royalties from this agreement. E2000 is an entity in which Mr. McAfee, co-owner of Berg McAfee Companies, and other affiliates have an 80% beneficial ownership interest.

Our revenue recognition policy with regards to drilling operations is to recognize revenue when collectibility is reasonably assured. We have determined that based upon our current contract with E2000, collectibility is reasonably assured when amounts outstanding are paid. Consequently, we have deferred any revenue associated with the contract with E2000 that has not been paid. During the year ended December 31, 2003, we signed an agreement with NGS to provide drilling services for a number of wells in the Delhi field in Louisiana. This contract was subsequently modified on January 27, 2004 by a new contract that negated any participation rights the Company had in the Delhi field and formalized a fee for service arrangement. In the year ended December 31, 2003 2 wells were drilled for NGS for total revenue of \$130,000. It is not anticipated that we will receive any royalties from this agreement. NGS is an entity in which Mr. McAfee, co-owner of Berg McAfee Companies, and other affiliates have a 23.0% beneficial ownership interest.

In April, 2003 the Company entered into a licensing agreement with Carl Landers for the exclusive rights to use Mr. Lander's proprietary lateral drilling technology in North America. The license required the payment of \$2,750,000 in the form of a note plus interest at 8 percent. It also required the Company to pay Mr. Landers 10



percent of the net revenues from services utilizing the lateral drilling technology. The Company amended lateral drilling license agreement with Carl Landers in August, 2003. Mr. Landers agreed to retroactively eliminate the royalty fees of 10% of the net revenues on our lateral drilling, in exchange for 500,000 shares of our restricted common stock plus a flat fee of \$500 per well drilled. The parties also agreed to amend a certain term of the license regarding the expiration dates associated with the patents to the lateral drilling technology. We capitalized \$2,275,000 associated with the 500,000 shares issued and are amortizing the amounts associated with the license over a period of 14 years. In July 2003, we exchanged 125,000 shares of our restricted common stock for a reduction of \$250,000 to the principal balance of the note payable to Mr. Landers. Pursuant to our license agreement with Mr. Landers, we were scheduled to pay Mr. Landers \$500,000 on December 31, 2003. In February, 2004 the license with Mr. Landers was further amended to require the balance of any sums outstanding relating to the note would be paid in the form of 300,000 shares of common stock, immediate payment of \$100,000 and a final payment of \$400,000 on or before May 15, 2004. The final payment was made on May 14, 2004. In addition the Company agreed to register the 500,000 common shares previously granted in its next Registration Statement. (See Financial Note 5)

- 42 -

---

## **VERDISYS, INC.**

### Satellite Communications Services

Satellite Communication Services' revenues for the year ended December 31, 2003 were \$419,247 compared to the year ended December 31, 2002 of \$287,190. This increase for the year was primarily related to the first full year of service to our largest customer, Apache Corporation, and the large order from Noble Energy. As hardware is sold, the Company recognizes the revenue in the period it is delivered to the customer. The bandwidth revenue is amortized over the period benefited. Cash collected for bandwidth is recorded as deferred revenue. At December 31, 2003, there was \$271,485 reflected in the balance sheet as deferred revenue relating to Satellite Communication Services.

### Net Loss

The net loss for the year ended December 31, 2003 increased to \$7,356,045 from \$3,128,782 for the year ended December 31, 2002. The increased loss was due to significant increase in selling, general and administrative expenses as the Company built its lateral drilling business and negative gross margins realized from both its lateral drilling and satellite communications businesses.

The level of selling, general and administrative expenses in 2003 was \$6,638,817 compared to \$3,139,518 in 2002. Several major non-recurring items were incurred during 2003 for a total of \$5,843,518. This was composed of \$3,468,650 for stock for service, option, and warrant expenses (see Financial Note 13); \$1,000,000 for compensation to a related party (see Financial Note 19); \$620,000 for the payment of an option to purchase a gas field and related costs (see Financial Note 20); and \$300,000 for a guarantee of third party debt (see Financial Note 8); In addition to the non-recurring items, legal expenses increased to \$496,628 in 2003 from \$1,337 in 2002 due to an abnormally high level of legal activity last year.

### Liquidity and Capital Resources

#### Capital Expenditures

The Company ordered four new lateral drilling rigs during the year ended December 31, 2003 to support its new lateral drilling business. This was the Company's only significant capital expenditure. As of December 31, 2003 the Company had taken receipt of two of the rigs and took delivery of the two additional rigs in January, 2004.

#### Liquidity

As of December 31, 2003 the Company's cash balance was \$1,373,627. As noted in the Independent Auditors Report (See Financial Note 2) due to the continued substantial operating losses that the Company has incurred raises substantial doubt as to the Company's ability to continue as a going concern. The Company is in an early stage of development and is rapidly depleting its cash resources, therefore it has determined that it will need to

raise additional financing in the short term to continue in operation and fund future growth. The Company is incurring liquidated damages up to a cap of \$400,000 related to the timing of providing registration rights for the private financing that it arranged in November 2003. If we are unable to restructure the scheduled technology payment or financing and associated damages, this would have a material adverse effect on the Company.

The Company currently plans to raise additional financing in the quarter ending June 30, 2004. The use of stock for currency in financing or making acquisitions may be heavily curtailed while the Company is under SEC investigation. (See Financial Note 16) If we are unable to arrange new financing or generate sufficient revenue from new business arrangements, the Company will be unable to continue in its current form and will be forced to restructure or seek creditor protection.

- 43 -

---

## **VERDISYS, INC.**

In July and August 2003, the Company sold 609,000 shares of our restricted common stock at \$2.00 per share in a private placement for total proceeds of \$1,218,000 gross. In the absence of an effective registration statement, the shares can be sold pursuant only to some exception from registration such as Rule 144 of the Securities Act which requires, among other conditions, that the shares must be held for a minimum of one year. Fees associated with the placement consisted of \$19,000 in cash, 39,400 shares of our restricted common stock and warrants to purchase 9,501 shares of our common stock at \$2.00 per share. In connection with the offering, the Company issued 9,501 warrants for the purchase of our common stock at a price of \$2.00 per share to certain principals of the investment bank that assisted us with the offering. The warrants may be exercised at any time prior to September 5, 2008 by paying cash at the warrant price. Prior to us filing a registration statement, such warrants may be exercised by surrendering such number of shares of our common stock received upon exercise of the warrants with a current market price equal to the warrant price.

The Company's only outstanding debt is to Mr. Landers for the note related to the license of his technology. The Company has guaranteed \$300,000 of third party debt during 2003. (See Financial Note 8) On October 24, 2003, we sold 833,333 shares of our restricted common stock at a purchase price of \$6.00 per share for a total purchase price of \$5,000,000. In the absence of an effective registration statement, the shares can be sold pursuant only to some exception from registration such as Rule 144 of the Securities Act which requires, among other conditions, that the shares must be held for a minimum of one year. We have paid fees associated with this sale totaling \$420,000 resulting in net proceeds to us of \$4,580,000.

The subscription agreement for the sale also confers registration rights to the purchaser for all of the common stock purchased in this transaction and an additional 300,000 shares of our common stock purchased by the same purchaser from Dr. Joe Penbera, our director, in a prior unrelated private transaction. The purpose of this offering was to provide additional operating capital to assist us in fulfilling our current commitments and expanding our operations.

In November 2003, the Company purchased an exclusive option whereby for a specific time period the Company could decide to purchase a large natural gas field with significant current gas production. The option required the Company to pay a non-refundable deposit of \$500,000, and incur fees to date of \$120,000 associated with the transaction. The Company did not purchase the natural gas filed prior to the expiration of the option in November 2003 resulting in a forfeiture of our deposit. (See Financial Note 20)

### Restatement of Second and Third Quarters of 2003

Verdisys, Inc. has restated its second and third quarter of 2003 financial results to reverse the effects of certain revenues that could not be substantiated and to reclassify a software impairment expense to compensation (see Financial Notes 19 and 22).

### Research and Development, Patents and Licenses

The Company believes that its future success depends on the ability to effectively utilize the lateral drilling technology obtained in a license granted by Mr. Landers. See [Patents] in the Description of Property section of this prospectus.

**VERDISYS, INC.****Description of Property**Office Facilities

Verdisys' office is in The Woodlands, Texas. In December 2003, Verdisys renewed the Woodlands lease for 12 months for \$6,071 per month. Future minimum lease payments under the lease as of December 31, 2003 are \$66,781 in 2004. Rent expense was \$42,325 and \$47,627 in 2003 and 2002, respectively.

Verdisys' prior office was in Houston, Texas. The offices for 2001 and part of 2002 were in Aliso Viejo, California. The Aliso Viejo lease was for \$1,800 per month and expired August 2002. The Houston office was in the home of an employee on a monthly basis for \$900 per month through August 2002. In September 2002, Verdisys signed a 13-month office lease for \$1,483 per month. Future minimum lease payments under the lease as of December 31, 2002 were \$13,343 in 2003.

Property and Equipment

Property and equipment consisted of the following at December 31, 2003:

Description	Life	Amount
Lateral drilling equipment	5 years	\$ 427,420
Computer equipment	3 years	56,949
Office furniture and equipment	7 years	20,712
		505,081
Less: accumulated depreciation		(65,714)
		\$ 439,367

The primary plant and equipment of Verdisys, Inc. are four mobile lateral drilling units, which can be driven to oil and gas fields throughout North America. Lateral drilling equipment consists of heavy trucks mounted with high powered water compressors, flexible hose and other assorted downhole equipment which is used to conduct the lateral drilling process with high pressure jetting technology. Verdisys, Inc. also maintains certain satellite communication and computer equipment at its home office.

Insurance

Our operations are subject to hazards inherent in the oil and gas industry, such as accidents, blowouts, explosions, craterings, fires and oil spills. These conditions can cause:

- a) personal injury or loss of life
- b) damage to or destruction of property, equipment and the environment
- c) suspension of operations

In addition, claims for loss of oil and gas production and damage to formations can occur in the well service industry. Litigation arising from a catastrophic occurrence at a location where our equipment and services are being used may result in us being named as a defendant in lawsuits asserting large claims.

We maintain insurance coverage that we believe to be customary in the industry against these hazards. However, we may not be able to maintain adequate insurance in the future at rates we consider reasonable. In addition, our insurance is subject to coverage limits and some policies exclude coverage for damages resulting from environmental contamination. The occurrence of a significant event or adverse claim in excess of the insurance coverage that we maintain or that is not covered by insurance could have a materially adverse effect on our financial condition and results of operations.

**VERDISYS, INC.**Patents, Trademarks and other Intellectual Property

On April 24, 2003 we entered into an agreement to license the Landers Horizontal Drilling Process, based on U.S. Patent Nos. 5,413,184, 5,853,056, and 6,125,949 relating to certain oil and gas well production enhancement techniques and devices and related trade secrets with the inventor and holder of the patents and trade secrets, Carl Landers. The license gives us exclusive rights to apply the technology in all of the U.S. (except for part of Colorado West of the Rockies, and Utah) and Canada to use the Landers Horizontal Drill and the related trade secrets. Mr. Landers also reserves the rights to certain applications in which he has a direct interest. The license terminates upon the expiration of the underlying patents, the earliest date being October 1, 2013. We amended the license on September 4, 2003, to provide for consideration to Mr. Landers of a fixed amount of \$500 for every well drilled in which the Landers Horizontal Drill method is utilized, instead of the original 10% royalty payment, and 500,000 shares of our restricted common stock. In addition, in exchange for a reduction of the note payable associated with the license from \$2,750,000 to \$2,500,000, we issued an additional 125,000 shares of our restricted common stock and agreed to register the shares in a subsequent Registration Statement. Additionally, Mr. Landers was appointed as one of our directors for the duration of the license, subject to shareholder approval. He has since resigned his appointment.

We amended the license again in February 2004 when \$1,695,000 of outstanding payment obligations to Mr. Landers for technology fees were waived in exchange for the issue of 300,000 common shares in Verdisys, Inc. and the payment of \$100,000 in cash and the promise to pay \$400,000 in cash prior to May 15, 2004. The final payment was made on May 14, 2004. The Company also agreed to register the 500,000 common shares previously granted in a subsequent Registration Statement.

The licensor retains some self use rights but may not compete with the licensee. Any improvements to the technology remain the sole property of the licensor but are provided to Verdisys without additional licensing fees.

The lateral drilling technology and related trade secrets are instrumental to our competitive edge in the oil and gas service industry. We are committed to protecting the technology. We cannot assure our investors that the scope of any protection we are able to secure for our license will be adequate to protect it, or that we will have the financial resources to engage in litigation against parties who may infringe on our exclusive license. We also can not provide our investors with any degree of assurance regarding the possible independent development by others of technology similar to that which we have licensed, thereby possibly diminishing our competitive edge. See Risk Factors.

**Certain Relationships and Related Transactions**Energy 2000 and Natural Gas Systems

In April 2003, Verdisys signed a drilling service contract with Energy 2000 NGC, Inc. of Louisiana ("Energy 2000"), whereby Energy 2000 would have paid Verdisys a minimum of \$1,800,000 for lateral drilling of 45 wells. This contract was for a fixed amount due to Verdisys, dependent upon the number of wells serviced and offshoot lateral bores drilled. In addition, Verdisys would receive an 80 percent interest in the net operating income after payback from these properties and also be reimbursed for 20 percent of its field costs. In September, 2003 Verdisys entered into another contract with Energy 2000 for an additional 57 wells with terms similar to the original contract. These contracts have been suspended for lack of payment.

In September 2003, Verdisys signed a drilling service contract with Natural Gas Systems, Inc. (NGS), whereby NGS would have paid Verdisys a minimum of \$7,800,000 for lateral drilling of 120 wells. This contract was for a fixed amount with the total price dependent upon the number of wells serviced and offshoot lateral bores drilled. In addition, Verdisys would receive a 70 percent interest in the net operating income after payback from these properties. This contract has been renegotiated in February 2004 for a reduced number of wells but with an initial four well commitment.

Energy 2000 is a subsidiary of Berg McAfee Energy, LLC, which is a wholly owned subsidiary of Berg McAfee Companies. Natural Gas Systems is an independent company with substantial shareholdings owned by Eric McAfee, a 50 per cent owner of Berg McAfee Companies and former Director of Verdisys, and Berg McAfee Companies. They are beneficially owned 80% and 23% respectively by Berg McAfee or Eric McAfee personally.

- 46 -

---

## **VERDISYS, INC.**

Verdisys billed \$666,250 and \$153,960 to Energy 2000 and NGS, respectively, for services performed in 2003. Verdisys received \$397,500 and \$130,000, respectively. However, for Energy 2000 Verdisys has inadequate documentation to substantiate whether some of the services were performed. For Energy 2000, Verdisys was able to substantiate \$328,750 of revenue leaving \$68,750 in deferred revenue. Because of the uncertainty of collection, all services not collected are deferred. As of December 31, 2003, deferred revenues total \$92,710.

Lateral drilling services for these two customers ceased in December 2003 because of a change in Verdisys management, and are expected to resume for NGS in the second quarter of 2004.

### Software Purchase

In April 2003, Verdisys issued 2,000,000 shares of common stock for what management believed was satellite communications management software pursuant to an asset purchase agreement with a related party. Management in place as of August 2003 maintained the software was not useful and impaired it as of June 30, 2003. In early 2004, following an internal investigation, new management determined that the agreement is likely subject to rescission. Verdisys is evaluating its options to rescind the agreement and cancel the shares issued. The majority shareholder of Verdisys and former director, who was also a principal to the counterparty in the transaction, acquired 11.5% of the 2,000,000 shares.

### Additional Transactions

In December 2003, Verdisys granted 500,000 options to purchase Verdisys common stock to the chairman and interim CEO. The options expire in 10 years, have an exercise price of \$9.55 based upon price at date of grant. 50,000 vested immediately, 50,000 were performance options and did not vest, and the remaining 400,000 options vest evenly over 12 months in 2004.

Verdisys had a consulting agreement with its current majority stockholder for \$10,000 per month through April 30, 2005, with \$120,000 due during 2004 and \$40,000 in 2005. \$0 was accrued and unpaid under this agreement as of December 31, 2003. This agreement was cancelled with two months notice in February, 2004 effective upon the resignation of the director.

In April 2002, Verdisys entered into a three-year employment agreement with its then CEO. The base salary under the agreement was \$250,000 per year with quarterly performance bonuses and 2,000,000 stock options granted in 2002 and exercisable at \$.10 per share and vesting quarterly over a two-year period. \$400,000 and \$175,000 in expense was incurred in 2002 relating to the vested portion of these options and unpaid salary, respectively. In November 2002, this CEO resigned. In 2003 Verdisys agreed to pay accrued salary of \$204,320 in cash of which \$161,306 was paid as of December 31, 2003 and the balance is accrued as of December 31, 2003.

- 47 -

---

## **VERDISYS, INC.**

### **Market for Common Equity and Related Stockholder Matters**

Our common stock was listed for trading on the OTC Bulletin Board on January 13, 2003 under the symbol RDGI, but active trading in our common stock did not begin until May 2, 2003. After the consummation of the merger between us and Verdisys, our common stock commenced trading on the OTC Bulletin Board on July 18, 2003

Edgar Filing: VERDISYS INC - Form SB-2

under the symbol "VDYS." On March 10, 2004 trading was halted until March 24, 2003 when trading resumed on the Pink Sheets as "VDYS.PK" The following table sets forth, for the periods indicated, the high and low prices of a share of our common stock as reported on the OTC Bulletin Board since active trading began on May 2, 2003 or on the Pink Sheets since March 24, 2004. The quotations provided are for the over the counter market which reflect interdealer prices without retail mark-up, mark-down or commissions, and may not represent actual transactions.

	<u>HIGH</u>	<u>LOW</u>
2003		
Second Quarter (from May 2, 2003)	\$ 1.72	\$ 1.53
Third Quarter	\$ 6.32	\$ 5.65