

VERDISYS INC  
Form 10QSB/A  
January 27, 2005  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-QSB/A**

(Amendment No. 1)

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(Mark One)

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

For the quarterly period ended March 31, 2004

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

333-64122

(Commission file number)

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**VERDISYS, INC.**

(Exact name of small business issuer as specified in its charter)

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

**22-3755993**  
(IRS Employer  
Identification No.)

**14550 Torrey Chase, Blvd., Suite 330**

**Houston, Texas 77014**

(Address of principal executive offices)

**(281) 453-2888**

(Issuer's telephone number)

**25025 I-45 North, Suite 525**

**The Woodlands, Texas 77380**

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

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

The number of shares outstanding of each of the issuer's classes of common equity as of March 31, 2004 - 30,792,036 shares of common stock

The common stock of Verdisys, Inc. is traded over-the-counter on the Pink Sheets under the symbol **VDYS.PK**.

**Transitional Small Business Disclosure Format (check one):** Yes  No

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**Explanatory Note**

Verdisys, Inc. is filing this amended Quarterly Report on Form 10-QSB/A for the period ended March 31, 2004 (the Amended Quarterly Report ), to amend its Quarterly Report on Form 10-QSB for the period ended March 31, 2004 (the Original Quarterly Report ), which was filed with the Securities and Exchange Commission (the SEC ) on May 25, 2004.

The Amended Quarterly Report amends the disclosure under the Part I, Item 2 Management's Discussions and Analysis of Financial Condition and Plan of Operation Forward-Looking Statements , Part I, Item 3 Controls and Procedures , and Part II, Item 6 Exhibits and Reports of Form 8-K . Except for these items, no other information in the Original Quarterly Report is amended hereby. The revised disclosures do not affect the financial results.

**Verdisys, Inc.**

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\* This Form 10-QSB/A amends only items identified in the Index, and no other information included in the Company's Original Quarterly Report is amended hereby.

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**PART I. FINANCIAL INFORMATION**

**Item 2. Management's Discussion and Analysis of Financial Condition and Plan of Operations**

Forward-Looking Statements

All statements that are included in this Quarterly Report, other than statements of historical fact, are forward looking statements. You can identify forward-looking statements by words such as "anticipate," "believe," and similar expressions and statements regarding our business strategy, plans and objectives for future operations. Although management believes that the expectations reflected in these forward looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. The forward looking statements in this filing involve known and unknown risks and uncertainties, which may cause Verdisys' actual results in future periods to be materially different from any future performance that may be suggested in this release. Such factors may include risk factors including but not limited to: changes in technology, reservoir or sub-surface conditions, the introduction of new services, commercial acceptance and viability of new services, fluctuations in customer demand and commitments, pricing and competition, reliance upon subcontractors, the ability of Verdisys' customers to pay for our services, together with such other risk factors as may be included in the Company's Annual Report on Form 10-KSB.

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

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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.

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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 \$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 finance the liquidated damages, this would have a material adverse effect on the Company.

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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.

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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.

### **Item 3. Controls and Procedures**

The Company's Principal Executive Officer and Principal Financial Officer have undertaken an evaluation of the Company's disclosure controls and procedures as of March 31, 2004. The Company's Principal Executive Officer and Principal Financial Officer have concluded that the existing disclosure controls and procedures are effective to provide reasonable assurances that (i) information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the Company's management, including the Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure, and (ii) the information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There have been no changes in Verdisys' internal control over financial reporting during the quarter ended March 31, 2004 that have materially affected, or are reasonably likely to materially affect, Verdisys' internal control over financial reporting.

## **Part II. OTHER INFORMATION**

### **Item 6. Exhibits and Reports on Form 8-K**

#### **Reports on Form 8-K**

During the period ending March 31, 2004 and through the date of the filing of this Quarterly Report on Form 10-QSB; Verdisys, Inc. had filed the following Reports on Form 8-K with the Securities and Exchange Commission on the dates indicated:

May 17, 2004	re: Press Release - Drilling License Final Payment
May 7, 2004	re: Financial Statements - Amendment #2 to the Report on Form 8-K filed with SEC on July 18, 2003, as amended September 29, 2003; re: revision of certain financial statements.
March 26, 2004	re: Press Release - New Agreements for Lateral Drilling
March 16, 2004	re: Financial Statements - Expectation for the restatement of Second Quarter and Third Quarter 2003 Financial Statements of Verdisys, Inc.
March 15, 2004	re: Resignation of Registrant's Directors - Carl Landers
March 10, 2004	re: Resignation of Registrant's Directors - Eric A. McAfee



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March 2, 2004 re: Licensing Agreement, Second Amendment Carl Landers  
January 6, 2004 re: Press Release - Revised revenue projections

### Exhibits

- 31.1 Certification of Principal Executive Officer pursuant to Section 302
- 31.2 Certification of Principal Accounting Officer pursuant to Section 302
- 32.1\* Certification of Principal Executive Officer Pursuant to Section 1350
- 32.2\* Certification of Principal Accounting Officer Pursuant to Section 1350

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\* Filed with Verdisys, Inc's Quarterly Report on Form 10-QSB filed on May 25, 2004

