

VERDISYS INC  
Form 10QSB/A  
January 27, 2005  
Table of Contents

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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 June 30, 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 June 30, 2004 - 31,373,777 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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**Table of Contents**

**Explanatory Note**

Verdisys, Inc. is filing this amended Quarterly Report on Form 10-QSB/A for the period ended June 30, 2004 (the Amended Quarterly Report ), to amend its Quarterly Report on Form 10-QSB for the period ended June 30, 2004 (the Original Quarterly Report ), which was filed with the Securities and Exchange Commission (the SEC ) on August 11, 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.**

**Index**

	<b><u>Page Number</u></b>
PART I. <u>FINANCIAL INFORMATION</u>	
Item 2. <u>Management s Discussion and Analysis of Financial Condition and Plan of Operations</u>	3
Item 3. <u>Controls and Procedures</u>	4
Part II. <u>OTHER INFORMATION</u>	
Item 6. <u>Exhibits and Reports on Form 8-K</u>	5
<u>SIGNATURES</u>	6

\* 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.

**Table of Contents**

**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 periodic filings on Form 10-KSB, 10-QSB, and other current reports.

Financial Summary

Three Months Ended June 30, 2004 Compared to Three Months Ended June 30, 2003

Verdisys incurred \$307,533 in revenues and a net loss of \$1,046,562 for the quarter ended June 30, 2004 as compared to revenues of \$197,843 and net loss of \$2,678,175 for the quarter ended June 30, 2003. Revenues increased as a result of an increase in lateral drilling activity 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 decreased as a result of lower selling, general and administration expenses (SG&A) associated with a decrease in non-cash stock, stock option and warrant expense in the prior year quarter.

In January, 2004 the 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, Blue Ridge Natural Gas Partners, U.S.Department of Energy, Enervest Operating, Maxim Energy and VJI Resources. Also as previously disclosed, Verdisys has redesigned its down-hole drilling equipment and is in the process of deploying the modified equipment into the field in order to improve the reliability of its drilling operations. 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 \$152,504 and \$0 for the three months ended June 30, 2004 and three months ended June 30, 2003, respectively. The increase in revenues for the quarter was primarily associated with revenues from the commencement of the Amvest Osage and Maxim Energy contracts and recovery of certain third party expenses from related parties.

### Satellite Communications Services

Satellite Communication Services revenues for the quarter ended June 30, 2004 were \$155,049 compared to the quarter ended June 30, 2003 of \$197,843. 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 associated bandwidth revenue is amortized over the period benefited. Cash collected for bandwidth is recorded as deferred revenue. At June 30, 2004 there was \$407,807 reflected in balance sheet as deferred revenue relating to Satellite Communications.

## Table of Contents

### Net Loss

The Net Loss for the quarter ended June 30, 2004 decreased over the prior quarter primarily as a result of lower SG&A expenses associated with a decrease in non-cash stock, stock option and warrant expense in comparison to the prior year quarter.

### Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003

### Net Loss

The Net Loss for the six months ended June 30, 2004 increased primarily as a result of higher SG&A 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, partly offset by debt forgiveness income.

### Liquidity and Capital Resources

#### Capital Expenditures

There were no significant capital expenditures in the quarter.

#### Liquidity

As of June 30, 2004 the Company's cash balance was \$166,948. 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 has also incurred 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 is also subject to significant contingent liabilities as more fully described in the Notes to the Financial Statements. See Note 8, Litigation.

The Company currently plans to raise additional financing in the quarter ending September 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.

**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 June 30, 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 June 30, 2004 that have materially affected, or are reasonably likely to materially affect, Verdisys' internal control over financial reporting.

**Table of Contents**

**Part II. OTHER INFORMATION**

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

Reports on Form 8-K

During the period ending June 30, 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.  
July 27, 2004 re: Press Release Verdisys Provides Operational Update

Exhibits

Exhibits 4.1 thru 4.5 are form agreements used in financing activities.

4.1\* Form of Subscription Agreement  
4.2\* Form of Warrant Agreement  
4.3\* Form of Promissory Note  
4.4\* Form of Convertible Promissory Note  
4.5\* Form of Registration Rights Agreement

Exhibits 10.1 thru 10.3 are disclosure of recent material contracts.

10.1\* Master Service Contract BlueRidge Gas Partners, LLC June 23, 2004  
10.2\* Master Service Contract VJI Natural Resources, LLC July 20, 2004  
10.3\* Contract/Order U. S. Department of Energy June 4, 2004 and  
Letter of Intent, Radial Drilling Optimization Services April 14, 2004

Exhibits 31.1, 31.2, 32.1 and 32.2 are officer certifications.

31.1 Certification of Principal Executive Officer pursuant to Section 302  
31.2 Certification of Principal Accounting Officer pursuant to Section 302



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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 August 11, 2004.

