VERDISYS INC
Form 10KSB/A
January 27, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Form 10-KSB/A

(Amendment No. 1)

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x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

¨ TRANSITIONAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 333-64122

VERDISYS, INC.

(Name of small business issuer in its charter)

California	22-3755993
(State of incorporation)	**(IRS Employer Identification Number)**

25025 I-45 North, Suite 525

The Woodlands, Texas 77380

(Address of principal executive offices)

(281) 364-6999

(Telephone number)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common Stock, $.001 Par Value

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Check whether 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. Yes x No ¨

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-KSB or any amendments to this Form 10-KSB. x

Issuer s revenues for the most recent fiscal year: $885,441

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the average bid and asked price of such common equity, as of March 25, 2004 is $99,564,922.

The number of shares outstanding of each of the issuer s classes of common equity, as of December 31, 2003:

Common Stock: 29,627,265 shares

No (1) annual report to security holders; (2) proxy or information statement; or (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933; are incorporated by reference into any part of this Form 10-KSB.

Transitional Small Business Disclosure Format: ¨ Yes; x No

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Explanatory Note

Verdisys, Inc. is filing this amended Annual Report on Form 10-KSB/A for the year ended December 31, 2003 (the Amended Annual Report), to amend its Annual Report on Form 10-KSB for the year ended December 31, 2003 (the Original Annual Report), which was filed with the Securities and Exchange Commission (the SEC) on April 15, 2004.

The Amended Annual Report amends the disclosure under the captions Business Forward-Looking Statements , Controls and Procedures and Exhibits and Reports on Form 8-K . Except for these items, no other information in the Original Annual Report is amended hereby. The revised disclosures do not affect the financial results.

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* This form 10-KSB/A amends only items identified in the Table of Contents, and no other information included in the Company s Original Annual Report is amended hereby.

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Description of Business

Forward-Looking Statements

Certain statements concerning the Company s plans and intentions included herein may constitute forward-looking statements, including, but not limited to, statements identified by the words anticipate and 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. 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 annual report 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.

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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.

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 macroeconomic 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. According to the website www.naturalgasfacts.org sponsored by the American Petroleum Institute, the American Petroleum Institute currently advocates with respect to meeting future natural gas demand 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.

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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 generate new business by re-entering existing wells and is not dependent on the production company 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.

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

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A significant volume of the known oil and gas in the U.S. remain untapped in existing well bores. By extending 2 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.

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 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 extremely precise in targeting and staying within specific pay zones for a potentially significant enhancement to the production of the well.

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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.

VLDS utilizes patented technology in the areas of the design and manufacture of the Deflecting Shoe and the process of high pressure waterjet 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 negates 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 significantly extended.

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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_2, 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.

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.

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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 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?

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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.

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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 s) 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.

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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.

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.

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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. If Verdisys fails to pay the $400,000 by May 15, 2004, the license may be revoked. 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.

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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 yeas, 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.

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Controls and Procedures

Verdisys, Inc. management, including the Principal Executive Officer and Principal Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures as of December 31, 2003 pursuant to Exchange Act Rule 13a-15. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that (i) information required to be disclosed by Verdisys in the reports that it files or submits under the Exchange Act is accumulated and communicated to Verdisys management, including the Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure, and (ii) information required to be filed in the reports it files or submits is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms.

As previously disclosed in its Amendment No. 2 to Form 10-QSB/A for the period ended September 30, 2003, filed on December 3, 2003, during Verdisys fourth fiscal quarter of 2003 Verdisys implemented changes to improve Verdisys internal control over financial reporting that have materially affected or are reasonably likely to materially affect internal control over financial reporting. The additional internal controls and procedures were implemented to overcome the following deficiencies:

- Failure to properly evaluate the creditworthiness of customers contributing to the non-payment for services rendered;
- Inadequate oversight relating to the Company s contractual obligations, including approval of customer contracts and discussions relating to material transactions, such as mergers and acquisitions;
- Improper timing of public disclosure of information containing financial information;
- Administrative staff and management had inadequate training to follow proper internal control and financial reporting procedures; and
- Failure to have an adequate independent outside review of company business practices.

While Verdisys was in the process of further evaluating its internal controls and procedures during its fourth fiscal quarter of 2003, Verdisys implemented the following additional measures designed to improve internal control over financial reporting:

- A requirement that Verdisys Chief Financial Officer shall perform a full credit check on all customers ability to pay prior to executing any contracts with such customer;
- A requirement that two signatures are required for any check in excess of $25,000;
- All contracts in excess of $25,000 require approval by the Board;
- All proposed merger and acquisition activity is to be approved and controlled by the Company s Chairman of the Board;

All press releases and other public statements relating to financial issues concerning the Company shall be approved by the Chief Executive Officer, the Chief Financial Officer, and the Audit Committee;

An evaluation of the personnel requirements at the financial reporting function of the Company s management, including the chief Financial Officer position, and the consideration of other changes or additional personnel as may be needed; and

The engagement of outside professionals, including Verdisys outside legal counsel, to obtain advice and recommendations with respect to the foregoing and such other matters as may be necessary or appropriate.

In addition to the above steps affecting internal control, Verdisys appointed the Company s Chairman of the Board to the position of interim President, and delegated control of Verdisys website to the Chief Financial Officer.

In addition to the changes in the fourth quarter discussed above, the Audit Committee, along with management, has implemented additional changes to reinforce internal controls and has implemented stringent policies regarding business engagements and activities. These policies and procedures cover the areas of approval and

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authority limits, segregation of duties, internal audit procedures, revenue recognition, contractual commitments, documentation and customer acceptance, and staggered levels of internal checks and balances. Operating documents, such as the Verdisys Accounting Operations Manual, Employee Handbook and Approval Authorities have been revised and adopted to describe such policies and train personnel. Since the earnings restatement in November 2003, the Committee has increased the frequency of its meetings and has directly reviewed and approved internal policies and procedures. They have also been directly involved in recruiting key personnel, namely a new CFO, and meeting with the Company s auditors. The Company believes the additional controls and procedures have improved its internal controls over financial reporting.

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Exhibits and Reports on Form 8-K

Reports on Form 8-K

During the Fiscal Year ending December 31, 2003 and through the date of the filing of this Annual Report on Form 10-KSB; Verdisys, Inc. had filed the following Reports on Form 8-K with the Securities and Exchange Commission on the dates indicated:

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
March 2, 2004	re: Licensing Agreement, Second Amendment Carl Landers
January 6, 2004	re: Press Release Revised revenue projections
December 12, 2003	re: Appointment of interim President and CEO Dr. Ron Robinson
December 4, 2003	re: Press Release Announcing results for Quarter ending September 2003
November 17, 2003	re: Press Release Expectation of Record Profits and Profitability 3Q2003
November 17, 2003	re: Regulation FD Disclosure Slide Presentation to investors and analysts
November 12, 2003	re: Regulation FD Disclosure Slide Presentation to investors and analysts
October 27, 2003	re: Other Events Sale of Common Stock
October 6, 2003	re: Licensing Agreement, as amended Carl Landers
October 1, 2003	re: Change in Registrant s Certifying Accountant
September 29, 2003	re: Change in Control of Registrant, as amended
July 18, 2003	re: Change in Control of Registrant
May 1, 2003	re: Announcement of Definitive Agreement for Merger

Exhibits

Index of Exhibits

The following lists, by exhibit number, all exhibits included or included by reference, to this annual report for the fiscal year ending December 31, 2003:

Number	Description
2.1	Agreement and Plan of Reorganization, dated April 24, 2003, as amended June 30, 2003;
	Filed July 18, 2003 with the SEC, Report on Form 8-K
3.1	Restated Articles of Incorporation dated July 15, 2003;
	Filed April 15, 2004 with the SEC, Form 10-KSB
3.2	Bylaws, as amended September 25, 2003

Filed April 15, 2004 with the SEC, Form 10-KSB

10.1 Employment Agreement John O Keefe, dated January 6, 2004;

Filed April 15, 2004 with the SEC, Form 10-KSB

10.2 Employment Agreement David Adams, dated December 31, 2003;

Filed April 15, 2004 with the SEC, Form 10-KSB

10.3 Advisor Agreement Dr. Ron Robinson, amended December 11, 2003;

Filed April 15, 2004 with the SEC, Form 10-KSB

10.4 Employment Agreement Andrew Wilson, dated June 2003;

Filed November 20, 2003 with the SEC, Form 10-QSB, as amended

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10.5	License Agreement Carl W. Landers, dated April 24, 2003;
	Filed October 6, 2003 with the SEC, Report on Form 8-K
10.5.1	Amendment to License Agreement Carl W. Landers, dated September 4, 2003;
	Filed October 6, 2003 with the SEC, Report on Form 8-K
10.5.2	Second Amendment to License Agreement Carl W. Landers, dated February 28, 2004;
	Filed February 28, 2004 with the SEC, Report on Form 8-K
10.6	Technology Report, Landers Technology , dated October 13, 2003;
	Filed November 20, 2003 with the SEC, Form 10-QSB, as amended
10.7	Subscription Agreement, Gryphon Master Fund, L.P., dated October 23, 2003 and Registration Rights Agreement dated October 24, 2003;
	Filed October 27, 2003 with the SEC, Report on Form 8-K
10.8	Form of Registration Rights Agreement, re: Private Placement Offering July/August 2003;
	Filed December 3, 2003 with the SEC, Form 10-QSB, as amended
10.9	Alternative Form of Registration Rights Agreement, re: Offering July/August 2003;
	Filed December 3, 2003 with the SEC, Form 10-QSB, as amended
10.10	Placement Agency Agreement, Stonegate Securities, Inc., dated August 26, 2003;
	Filed November 20, 2003 with the SEC, Form 10-QSB, as amended
10.11	Independent Contractor Agreement, Terronne Petroleum Corporation, dated August 1, 2003;
	Filed November 20, 2003 with the SEC, Form 10-QSB, as amended
10.12	Services Contract, Esperada Energy Partners, L.L.C., dated March 2004
	Filed April 15, 2004 with the SEC, Form 10-KSB
10.13	Services Contract, Maxim Energy, Inc., dated March 2004
	Filed April 15, 2004 with the SEC, Form 10-KSB
10.14	Services Contract, Natural Gas Systems, dated January 2004
	Filed April 15, 2004 with the SEC, Form 10-KSB
10.15	Contract Natural Gas Systems, Delhi Field , dated September 22, 2003;
	Filed November 20, 2003 with the SEC, Form 10-QSB, as amended
10.16	Services Contract, Amvest Osage, Inc.; dated January 2004
	Filed April 15, 2004 with the SEC, Form 10-KSB
10.17	Acknowledge of amounts owed at September 30, 2003,
	re: Edge Capital Group contract dated June 16, 2003;
	Filed November 20, 2003 with the SEC, Form 10-QSB, as amended
10.18	Contract Edge Capital Group, Franklin Field , dated September 27, 2003;
	Filed November 20, 2003 with the SEC, Form 10-QSB, as amended
10.19	Contract Edge Capital Group, Monroe Field , dated June 16, 2003;
	Filed August 20, 2003 with the SEC, Form 10-QSB, as amended

10.19.1	Addendum to Contract, Edge Capital Group, Monroe Field , dated November 19, 2003	
		Filed November 20, 2003 with the SEC, Form 10-QSB, as amended
10.20	Contract Noble Energy, re: Satellite Services, dated September 17, 2003;	
		Filed November 20, 2003 with the SEC, Form 10-QSB, as amended
10.21	Contract Apache Corp., re: Satellite Services, dated September 11, 2002;	
		Filed November 20, 2003 with the SEC, Form 10-QSB, as amended
10.22	Contract Energy 2000 NGC, Monroe Field , dated April 30, 2000;	
		Filed August 20, 2003 with the SEC, Form 10-QSB, as amended
10.23	Verdisys, Inc. 2003 Stock Option Plan;	
		Filed November 20, 2003 with the SEC, Form 10-QSB, as amended
14.1	Code of Ethics, dated April 2004	
		Filed April 15, 2004 with the SEC, Form 10-KSB
*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	
		Filed April 15, 2004 with the SEC, Form 10-KSB
32.2	Certification of Principal Accounting Officer pursuant to Section 1350	
		Filed April 15, 2004 with the SEC, Form 10-KSB

*Filed herewith.

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Signatures

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Verdisys, Inc.
(Registrant)

By: /s/ David Adams

David Adams
Co-Chief Executive Officer
Chief Operating Officer
Principal Executive Officer

Date: January 27, 2005