UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB/A

(Amendment No. 1)

(Mark One)

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

For the quarterly period ended September 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)

VERDISYS, INC.

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

California	**22-3755993**
(State or other jurisdiction of	**(IRS Employer**
incorporation or organization)	**Identification No.)**

14550 Torrey Chase Blvd.,

Houston, Texas 77014

(Address of principal executive offices)

(281) 453-2888

(Issuer s telephone number)

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

x 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 November 8, 2004: 32,999,505 shares of common stock.

The common stock of Verdisys, Inc. is traded over-the-counter on the OTC Bulletin Board under the symbol VDYS.OB .

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

Table of Contents

Explanatory Note

Verdisys, Inc. is filing this amended Quarterly Report on Form 10-QSB/A for the period ended September 30, 2004 (the Amended Quarterly Report), to amend its Quarterly Report on Form 10-QSB for the period ended September 30, 2004 (the Original Quarterly Report), which was filed with the Securities and Exchange Commission (the SEC) on November 15, 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 , 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 herby. The revised disclosures do not affect the financial results.

Verdisys, Inc.

Index

* 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 September 30, 2004 Compared to Three Months Ended September 30, 2003

Verdisys incurred $582,425 in revenues and a net loss of $976,378 for the quarter ended September 30, 2004 as compared to revenues of $27,824 and net loss of $1,653,560 for the quarter ended September 30, 2003. Revenues increased as a result of an increase in lateral drilling and satellite services activity for the quarter. There were no comparable lateral drilling revenues in 2003. The Net Loss decreased as a result of higher gross margins associated with the increased revenues, which were partially offset by higher selling, general and administration expenses (SG&A) associated with an increase in non-cash stock, and warrant expense associated with the issuance of debt and settlement of a certain lawsuit.

Revenues

Lateral Drilling Services

Lateral Drilling Services revenues were $427,519 and $0 for the three months ended September 30, 2004 and three months ended September 30, 2003, respectively. The increase in revenues for the quarter was primarily associated with revenues from the commencement of a contract with the Department of Energy, work performed for Maxim Energy and the rental of a rig to Advanced Hydraulics. The Company did not have a Lateral Drilling business in the quarter ended September 30, 2003.

As noted in the Subsequent Events section, effective as of October 27, 2004, Verdisys has entered into a Licensing Agreement to develop a new generation of lateral drilling technology. In the short term, the development activity will decrease lateral drilling revenues until such time as the Landers equipment is retrofitted and the new technology rigs are commissioned.

Satellite Communications Services

Satellite Communication Services revenues for the quarter ended September 30, 2004 were $154,906 compared to the quarter ended September 30, 2003 of $27,824. Revenue increased in the quarter due to higher hardware sales of satellite equipment to Exxon/Mobil and Kellog, Brown and Root and increased satellite bandwidth associated with the services to Noble Energy, Texas A&M, Dynegy and Kellog, Brown and Root which were not in service in the prior year. 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 September 30, 2004 there was $368,351 reflected on the balance sheet as deferred revenue relating to Satellite Communications.

Table of Contents

Net Loss

The Net Loss decreased as a result of higher gross margins associated with the increased revenues, which was partially offset by higher SG&A expense associated with an increase in non-cash stock, and warrant expense associated with the issuance of debt and settlement of a certain lawsuit.

Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003

Net Loss

The Net Loss for the nine months ended September 30, 2004 decreased primarily as a result of higher revenues and greater margin contribution compared to the prior year, offset by 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 partially offset by the absence of debt forgiveness income in 2004.

Liquidity and Capital Resources

Capital Expenditures

For the three and nine month periods ended September 30, 2004, capital expenditures excluding capitalized interest, were $3,705 and $3,705, respectively, as compared to $369,701 and $369,701 for the comparable periods in 2003.

Liquidity

As of September 30, 2004 the Company s cash balance was $122,764. 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 December 31, 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.

As noted in the Subsequent Events section, Verdisys has entered into an agreement to accept 300,000 shares of common stock of Natural Gas Systems, Inc. (the NGS Shares) to settle certain disputes with a related party, Energy 2000 NGC. As part of the settlement, the related party has agreed to sell the NGS Shares for gross proceeds of at least $1.25 per share, with the net proceeds after commissions, to be distributed to Verdisys. In addition, as part of the settlement, the Berg McAfee Companies and Eric McAfee have agreed to make an investment of $200,000 in Verdisys, to be evidenced by convertible promissory notes bearing interest at the rate of 8% per annum with a maturity date of May 31, 2006. The notes would be convertible into common stock at the rate of one (1) share of common stock for each $2.00 dollars

Table of Contents

of principal and interest outstanding. Verdisys believes the proceeds from sale of the NGS Shares and the amount received from the convertible promissory note investment will improve the company s cash outlook.

During the third quarter of 2004, Verdisys issued $350,000 in Convertible Notes to third party lenders, carrying an 8% interest rate and 175,000 shares in warrants at an exercise price of $0.001. The Convertible Notes mature December 31, 2005. Verdisys has an option to convert the shares at $2 per share when they have traded above that level for more than 20 trading days.

During the second and third quarter of 2004, officers and directors of Verdisys loaned Verdisys $185,000. The notes mature in 12 months, carry interest of 8% and have one year warrants attached with an exercise price of $2.00.

Subsequent Events

Energy 2000

In October, 2004 Verdisys entered into an agreement with Berg McAfee Companies, Energy 2000 NGC, Inc. (Energy 2000), and Eric McAfee to settle several outstanding legal issues. Energy 2000 has agreed to settle a Finders Fee and Lateral Drilling services dispute by delivering 300,000 shares of Natural Gas Systems stock into escrow for Verdisys. The Company plans to have these shares monetized as soon as practical. Furthermore, to settle a contemplated third party legal dispute, Verdisys and the parties have exchanged into escrow 500,000 shares of Natural Gas Systems stock for 500,000 of Verdisys shares and Verdisys has delivered an additional 250,000 shares. Verdisys also has agreed to dismiss the Quikview, Inc. lawsuit, which it had filed against certain individuals.

Lastly, Berg McAfee Companies and Eric McAfee have loaned $200,000 to Verdisys, to be evidenced by convertible promissory notes bearing interest at the rate of 8% per annum with a maturity date of May 31, 2006. The notes would be convertible into common stock at a conversion rate of one share of common stock for each $2.00 of principal and interest outstanding.

New Licensing Agreement

Verdisys has signed an exclusive worldwide licensing agreement with Alberta Energy Holdings for the application of their Abrasive Fluid Jet (AFJ) cutting technique to cut through well casing in oil and gas wells. Applications of such cutting techniques are a proven feature in industries as diverse as munitions disposal in the military, offshore platform dismantlement in the salvage industry and cutting specialty glass and steel in the machining industry. Verdisys would be among the first to apply the proven techniques to the energy service business.

Abrasive cutting utilizes high-pressure fluid and a small amount of abrasives, such as garnet sand, up to 20,000 pounds per square inch. It can cut through surfaces as tough as four inches of steel as well as granite. Abrasive cutting represents an off-the-shelf technology requiring application to drilling rather than developing a new invention. The successful application of abrasive cutting should allow Verdisys the ability to add a new service to its product line, such as milling holes and jetting laterals down to 10,000 feet or more instead of the current limitation of 6,000 feet. It may also facilitate cutting slots in well casings - potentially a large value-added application in conventional drilling and completion operations, especially offshore.

During the past few months, Verdisys has been enhancing its lateral drilling down-hole equipment in an effort to achieve a more consistent milling process with a higher degree of reliability for their customers. After a series of iterative above and below ground tests, these have significantly improved the reliability of the milling process. The Company is now applying similar iterative steps in an effort to improve the reliability of the lateral jetting process, which has a direct impact on potentially improving oil and gas production for the customer. In parallel to these ongoing operations, Verdisys plans to develop and employ abrasive cutting techniques into their future lateral drilling operations. Funding for developing this abrasive cutting into a lateral drilling application is expected to come from ongoing rig revenues, current and future capital commitments. This agreement is subject to approval by the board of directors for Verdisys.

Table of Contents

Under the terms of the licensing agreement, Alberta Energy Holdings will earn warrants for Verdisys common stock as specific phases of the AFJ process are successfully applied, a consulting fee during development as well as a royalty fee for each well where AFJ technology is used. Under the terms of the agreement, Alberta is entitled to receive four tranches of warrants. Each tranche will entitled Alberta the right to purchase 250,000 shares of Verdisys common stock, and each award is contingent upon the attainment of certain specific milestones as fully described in the agreement. The warrants will have a three-year term, with a strike price of $0.50 per share for the first tranche and $0.62 per share for the remaining tranches. The initial tranche will be fully vested as of the date of the agreement, and the remaining warrants will vest at 31,250 shares per quarter from the date of issuance.

Verdisys has agreed to pay Alberta a $10,000 per month consulting fee for six months beginning on November 30, 2004. In addition, royalties are payable by Verdisys at the rate of $1,000 per well for services billed at $40,000 or less, and for services above $40,000, a royalty of 2% per well is payable quarterly.

The agreement also provides for the mutual sharing of the proceeds from the sale of the technology by Verdisys, subject to a cap of $10 million.

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 September 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 September 30, 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

None

Exhibits

10.1*	License Agreement between Alberta Energy Holdings, Inc. and Verdisys, Inc. for Abrasive Fluid Jet Technology, dated October 27, 2004
10.2*	Agreement between Verdisys, Berg McAfee Companies, Energy 2000 NGC, and Eric McAfee
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

* Filed with Verdisys, Inc. s Quarterly Report on Form 10-QSB filed on November 15, 2004.

Table of Contents

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Verdisys, Inc.

By: /s/ David M. Adams, COO

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

Date: January 27, 2005

By: /s/ John O Keefe, CFO

John O Keefe
Co-Chief Executive Officer
Chief Financial Officer
Principal Accounting Officer

Date: January 27, 2005

7