

EMPLOYMENT AGREEMENT

This Employment Agreement (the “Agreement”) is effective as of January 6, 2004 (the “Effective Date”) by and between John O’Keefe (the “Executive”) and Verdisys, Inc., a California corporation (the “Company”).

1. Duties and Scope of Employment.

(a) **Position.** For the term of this Agreement, the Company agrees to employ the Executive in the position of Executive Vice President and Chief Financial Officer (the “Employment”). The duties and responsibilities of Executive shall include the duties and responsibilities for the Executive’s corporate office and position as set forth in the Company’s bylaws and such other duties and responsibilities as the Company’s Chief Executive Officer and/or Board of Directors may from time to time reasonably assign to the Executive.

(b) **Obligations to the Company.** During his Employment, the Executive shall devote his full business efforts and time to the Company. During his Employment, without prior written approval from the Company’s Chief Executive Officer, the Executive shall not render services in any capacity to any other person or entity and shall not act as a sole proprietor or partner of any other person or entity or as a shareholder or other owner owning more than ten percent of the stock or other interests of any other corporation or entity. This obligation, however, shall not preclude Executive from engaging in appropriate civic, charitable or religious activities or from devoting a reasonable amount of time to private investments or from serving on the boards of directors of companies, including closely held companies which are controlled by Executive as long as these activities or services do not materially interfere or conflict with Executive’s responsibilities to, or ability to perform his duties of employment by, the Company under this Agreement. The Executive shall comply with the Company’s policies and rules as they may be in effect from time to time during his Employment.

(c) **No Conflicting Obligations.** The Executive represents and warrants to the Company that he is under no obligations or commitments, whether contractual or otherwise, that are inconsistent with his obligations under this Agreement. The Executive represents and warrants that he will not use or disclose, in connection with his employment by the Company, any trade secrets or other proprietary information or intellectual property in which the Executive or any other person has any right, title or interest and that his employment by the Company as contemplated by this Agreement will not infringe or violate the rights of any other person. The Executive represents and warrants to the Company that he has returned all property and confidential information belonging to any prior employer.

2. Cash and Incentive Compensation.

(a) **Salary.** The Company shall pay the Executive as compensation for his services during the first twelve (12) months of his Employment a base salary at a gross annual rate of \$175,000. Such salary shall be payable in accordance with the Company’s standard payroll procedures. Only in the event that the parties extend the term of this Agreement pursuant to Section 4(a), then Company shall pay the Executive

as compensation for his service during the second twelve (12) months of his Employment a base salary at a gross annual rate of \$195,000 and, if applicable, for his service during the third twelve (12) months of his Employment a base salary at a gross annual rate of \$215,000. (The annual compensation specified in this Subsection (a), together with any increases in such compensation as a result of an extension of the term of this Agreement pursuant to Section 4(a), is referred to in this Agreement as “Base Compensation.”)

(b) Bonus. Executive shall receive a one time payment of \$40,000 as a sign on bonus and shall be included in the Company Executive Compensation program, whereby senior management are eligible to receive annual bonuses of up to 50% of their base compensation.

(c) Options. Executive shall be eligible to be considered for stock option grants under the Company’s annual stock option award program as administered by, and at the discretion of, the Compensation Committee of the Board of Directors. An initial option shall be granted to the Executive for the right to purchase an aggregate of 80,000 shares of the Company’s common stock at an exercise price based upon the date of approval by the Compensation Committee of the Board of Directors. Such option shall vest quarterly over the initial term of this Agreement.

(d) Insurance Coverage Reimbursement. Company agrees to pay Executive at current rate of \$394 per month to cover and to be in lieu of medical benefits, as selected by Executive in his sole discretion. Executive understands and agrees that Company is not required to permit Executive to participate in any Company-sponsored benefit plans, including but not limited to the Company’s medical plan, in the same or any manner as Company and any third-party benefit provider make such opportunities available to Company’s regular full-time employees; provided, however, if Company does provide such Company-sponsored benefit plans and Executive is eligible to participate in such Company-sponsored benefit plans, Executive shall not be entitled to receive such \$394 monthly payment.

(e) Vacation. During the term of this Agreement, Executive shall be entitled to vacation each year in accordance with the Company’s policies in effect from time to time, but in no event less than four (4) weeks paid vacation per calendar year.

3. Business Expenses. During his Employment, the Executive shall be authorized to incur necessary and reasonable travel, entertainment and other business expenses in connection with his duties hereunder. The Company shall reimburse the Executive for such expenses upon presentation of an itemized account and appropriate supporting documentation, all in accordance with the Company’s generally applicable policies. The Executive shall have a car allowance of \$1,000.00 per month during the term of this Agreement.