

BLAST ENERGY SERVICES, INC.

Form SB-2/A

December 21, 2005

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As filed with the Securities and Exchange Commission on December 21, 2005

Registration No. 333-128674

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**AMENDMENT NO. 1**  
**FORM SB-2**  
**REGISTRATION STATEMENT**  
*UNDER*  
*THE SECURITIES ACT OF 1933*

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**BLAST ENERGY SERVICES, INC.**

(Exact name of registrant as specified in its charter)

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

**1382**  
(Primary Standard Industrial  
Classification Code Number)

**22-3755993**  
(I.R.S. Employer  
Identification No.)

14550 Torrey Chase Boulevard, Suite 330

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Houston, Texas 77014-1022

(281) 453-2888

(Address, including zip code, and telephone number,  
including area code, of registrant's principal executive offices)

**John O. Keefe, Chief Financial Officer**

**14550 Torrey Chase Boulevard, Suite 330**

**Houston, Texas 77014-1022**

**(281) 453-2888**

(Name, address, including zip code, and telephone number,  
including area code, of agent for service)

---

*Copies to:*

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**Houston, Texas 77010**

**(713) 652-5151**

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**Approximate date of commencement of proposed to the public:** As soon as practicable after this registration statement becomes effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If delivery of the prospectus is expected to be made pursuant to Rule 434 check the following box. "

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. x

**CALCULATION OF REGISTRATION FEE**

<b>Title of each class of securities to be registered</b>	<b>Amount to be registered</b>	<b>Proposed maximum offering price per share</b>	<b>Proposed maximum aggregate offering price</b>	<b>Amount of registration fee</b>
Common Stock, no par value per share	4,125,000	\$0.45 (1)	\$1,856,250 (1)	\$218.48 (2)
Common Stock, no par value per share	978,271	\$0.90 (3)	\$880,445 (3)	\$94.20

\* Stated for the purpose of calculation of the registration fee only.

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) and Rule 457(h)(1) under the Securities Act of 1933, as amended and based on the average of the high and low sales prices of our common stock reported on the OTB Bulletin Board on September 26, 2005.

(2) Fee previously paid.

(3) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) and Rule 457(h)(1) under the Securities Act of 1933, as amended and based on the average of the high and low sales prices of our common stock reported on the OTB Bulletin Board on December 16, 2005.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**



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**The information in this prospectus may not be complete and is subject to change. Selling security holders may not sell these securities until the registration statement, of which this prospectus is a part, filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**Subject to Completion, dated December \_\_, 2005**

**BLAST ENERGY SERVICES, INC.**

**14550 TORREY CHASE BOULEVARD, SUITE 330**

**HOUSTON, TEXAS 77014-1022**

**PROSPECTUS**

**5,103,271 SHARES**

**COMMON STOCK**

We are registering up to 5,103,271 shares of our common stock for sale by certain shareholders of our company identified in this Prospectus. These shareholders are referred to throughout this Prospectus as selling stockholders. Of the 5,103,271 shares of our common stock subject to this Prospectus, 4,073,271 shares of our common stock are currently issued and outstanding; 1,030,000 shares of our common stock are issuable upon the exercise of certain warrants, options and other rights.

The selling stockholders who wish to sell their shares of our common stock may offer and sell their shares on a continuous or delayed basis in the future. These sales may be conducted at fixed prices, market prices or at negotiated prices, and the selling stockholders may engage a broker or dealer to sell their shares. We will not receive any proceeds from these sales, but we will receive proceeds from the exercise of any warrants, options or other rights. For additional information on possible methods of sale, you should see Plan of Distribution on page 16.

The securities being registered trade on the OTC Bulletin Board under the symbol BESV.OB . On December 16, 2005, the last reported sales price of our common stock was \$0.92 per share.

**Investment in small businesses involves a high degree of risk, and investors should not invest any funds in Blast Energy Services, Inc. unless they can afford to lose their entire investment. See Risk Factors, beginning on Page 3.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of the Prospectus. Any representation to the contrary is a criminal offense.**

**The date of this Prospectus is \_\_\_\_\_, 2005.**

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**BLAST ENERGY SERVICES, INC.**

**Summary Information and Risk Factors**

**Summary Information**

**PROSPECTUS SUMMARY**

You should read the following summary together with the more detailed information regarding us and the securities being offered for sale by means of this Prospectus and our financial statements and notes to those statements appearing elsewhere in this Prospectus. This summary highlights material information contained elsewhere in this Prospectus.

**General**

Our mission is to substantially improve the economics of existing oil and natural gas ( oil and gas ) operations through the application of our licensed and proprietary technologies.

Our primary segment will be our abrasive jetting business. We have been striving to develop a commercially viable lateral drilling technology with the potential to penetrate through well casing and into reservoir formations to stimulate oil and gas production. We believe that we can deliver a valuable and cost effective production enhancement service to onshore oil and gas producers, particularly operators of marginal wells. The goal is to make this new service reliably predictable and consistently dependable for our customers. We are currently building our first new generation lateral drilling rig with the capability of abrasive fluid jetting which utilizes high-pressure fluid mixed with a small volume of abrasive materials, such as fine garnet sand, to cut through surfaces as tough as four inches of steel as well as granite rock. If successful, the capabilities of this new generation rig may allow us to expand our market opportunities to a wider range of services, including specialty casing cutting, long reach perforating, lateral jetting and specialty completions. Should we achieve favorable results and customer acceptance of this initial rig's capabilities, we intend to order the construction of additional rigs and significantly grow the deployment of our abrasive jetting service.

Our secondary business segment is providing satellite services to oil and gas companies. This service allows our customers to remotely monitor and control well head, pipeline or drilling operations through low cost broadband data and voice services to remote operations where conventional land based communication networks do not exist or are too costly to install. Longer term, our vision is to introduce additional early stage technologies in the energy services sector, all of which would fit our mission of helping energy companies economically produce more oil and gas.

**Corporate History**



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We were originally incorporated in California in September 2000. In April 2003, we 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. We changed our 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, we changed our 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.

Effective June 6, 2005, we formally changed our name to Blast Energy Services, Inc. from Verdisys in part to reflect our focus on the energy service business. We have shifted our business strategy away from an agricultural related business toward energy services. We believe such a name change creates better name recognition related to the types of service that we intend to provide and the ability to trademark new applications and services in a way to uniquely identify them with our company.

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**BLAST ENERGY SERVICES, INC.**

**Summary of the Offering**

Shares outstanding before the offering	40,870,291 <sup>(1)</sup>
Shares offered by selling stockholders	5,103,271 shares of our common stock. <sup>(1)(2)</sup>
Use of proceeds	We will not receive any of the proceeds from the sale of our common stock offered by the selling stockholders. However, we may receive an aggregate of \$ 116,000 upon the exercise of all of the warrants or options held by the selling stockholders if such warrants or options are exercised for cash. Such funds, if any, will be used for working capital and general corporate purposes.
Risk factors	The shares offered hereby involve a high degree of risk. You should carefully consider the information set forth in the Risk Factors section of this Prospectus as well as other information set forth in this Prospectus, including our financial statements and related notes.
Plan of distribution	The offering of our shares of common stock is being made by stockholders of our company who may wish to sell their shares. Sales of our common stock may be made by the selling stockholders in the open market or in privately negotiated transactions and at market prices, fixed prices or negotiated prices.
OTC Bulletin Board Trading Symbol	BESV.OB <sup>3</sup>

<sup>(1)</sup> As of December 16, 2005.

<sup>(2)</sup> Includes 1,030,000 shares of common stock issuable upon exercise of rights, warrants, or options.

<sup>(3)</sup> Effective June 10, 2005.

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**BLAST ENERGY SERVICES, INC.**

**Risk Factors**

*Investing in our common stock is highly speculative and risky. You should be able to bear a complete loss of your investment. You should carefully consider the following risks and the other information in this Prospectus before investing in the shares. If any of the following risks and uncertainties develops into actual events, the business, financial condition and operating results could be materially adversely affected, and you could lose your entire investment. The risks and uncertainties described below are not the only ones which we face; there may be additional risks and uncertainties not presently known to us or those we currently believe are immaterial which could also have a negative impact on our business, financial condition, and operating results.*

*This Prospectus contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those discussed in the forward-looking statements as a result of certain factors, including the risk factors described below. The following risk factors should be considered carefully in addition to the other information contained in this Prospectus before purchasing the shares offered hereby.*

**GENERAL RISKS RELATING TO OUR COMPANY**

**1. The deployment of our abrasive jetting rig may be put in jeopardy due to funding issues.**

Cash flow from our current operations does not cover overhead expenses and our future financial security depends on the successful deployment of our abrasive jetting service. Funding for developing our abrasive cutting service was expected to come from current capital commitments as well as from the proceeds of the assignment of the exclusive rights acquired in 2003. The rig has largely been funded from a loan from our major shareholder, Berg McAfee Companies. In addition, on March 8, 2005, we agreed to sell our master license for the Landers lateral drilling technology to Maxim for \$1.3 million in cash to be received over four installments. To date Maxim has paid \$1,085,000 in principal payments and \$500,000 in penalties for extending the payment deadlines. Due to the delay in these funding sources and other factors, we have slowed down the construction of our first abrasive jetting rig. If for any reason, the rig construction is further delayed or the service is not successfully deployed in a timely manner, then the company will face a liquidity crisis. If we are unable to generate sufficient revenue from new business arrangements or arrange new financing, we will be unable to continue in our current form and will be forced to restructure or seek creditor protection.

**2. We have a limited operating history, which makes it difficult to evaluate our business performance.**

We have been in existence for a few years, but we conducted drilling operations using a prior generation of a proprietary lateral drilling technology only since June 2003 (which we are not presently utilizing) and satellite services to the oil and gas industry only since June 2002. We have not commenced any drilling operations with our abrasive jetting technology. We have commenced the construction of our first rig utilizing the abrasive jetting technology to the down-hole milling and lateral jetting techniques. Abrasive jetting has been successfully commercialized in several industries but is not yet proven in the energy drilling industry. Because we have a limited operating history, there is little historical financial data upon which an investor may evaluate our business performance. Our revenue and income potential are unproven. An investor must consider the risks, uncertainties, expenses and difficulties frequently encountered by companies in their early stages of development, particularly companies with limited capital in a rapidly evolving market. These risks and difficulties include our ability to develop our infrastructure,

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reliability in the milling process in our lateral drilling technology, attract and maintain a base of customers, provide customer support, personnel, and facilities to support our business, and respond effectively to competitive and technological developments. Our business strategy may not be successful or may not successfully address any of these risks or difficulties and we may not be able to realize revenues. If we are unable to generate sufficient revenue from new business arrangements or arrange new financing, we will be unable to continue in our current form and will be forced to restructure or seek creditor protection.

### **3. We are an investment risk because business and marketing strategies planned are not yet proven.**

We have no established basis to assure investors that our business or marketing strategies will be successful. We are highly dependent upon the acquisition of subscribers for our satellite division; selection of, and productivity from, appropriate oil and gas wells; as well as the effective application of technologies and services within operations. Our business model and marketing strategies are yet are unproven by a significant history of business operations. If we are unable to prove that our business model and strategies work through continued operations, we will be unable to generate sufficient revenue from new business arrangements. If we are unable to generate sufficient revenue or arrange new financing, we will be unable to continue in our current form and will be forced to restructure or seek creditor protection.

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BLAST ENERGY SERVICES, INC.

**4. We may be unable to raise the additional capital needed to sustain our operations.**

We may need to raise additional funds through public or private debt or equity financing or other various means. Adequate funds may not be available when needed or may not be available on favorable terms. If we raise additional funds by issuing equity securities, dilution to existing stockholders will result, and such equity may have rights, preferences and privileges senior to those of our common stock. If we raise additional funds by issuing debt securities, we may be required to agree to covenants that may restrict our ability to expend or raise capital in the future. If funding is insufficient at any time in the future and we are unable to generate sufficient revenue from new business arrangements, we will be unable to continue in our current form and will be forced to restructure or seek creditor protection.

**5. Our auditors have expressed doubt as to our ability to continue as a going concern.**

As noted in the Independent Auditors Report (See Financial Note 2 to our December 31, 2004 Financial Statements), our continued substantial operating losses raise substantial doubt as to our ability to continue as a going concern. We are in an early stage of development and are rapidly depleting our cash resources; therefore we have determined that we will need to raise additional financing in the short term to continue in operation and fund future growth. We incurred liquidated damages claimed by an investor of \$500,000 related to the timing of providing registration rights for the private financing that we arranged in November 2003 (see Risk Factor number 12 below). We also have significant contingent liabilities, which may be determined adversely to us. If we are unable to raise additional financing to satisfy these obligations and we are unable to generate sufficient revenue from new business arrangements, we will be unable to continue in our current form and will be forced to restructure or seek creditor protection.

**6. We experienced operating losses in 2002, 2003, 2004 and 2005, and this trend may continue.**

We suffered net losses of \$3,128,782, \$7,356,045 and \$5,590,275 for the years ended December 31, 2002, 2003 and 2004, respectively and \$3,086,833 for the nine months ended September 30, 2005. These losses are the result of a sporadic revenue stream which has been inadequate to compensate for our operating and overhead costs. The volatility underlying the early stage nature of our business and our industry prevents us from accurately predicting future operating conditions and results, and we could continue to have losses. It is uncertain when, if ever, we will have significant operating income or cash flow from operations sufficient to sustain operations. If cash needs exceed available resources additional capital may not be available through public or private equity or debt financings. Sustained losses will continue to have a material adverse effect on our business. If we are unable to arrange new financing or generate sufficient revenue from new business arrangements, we will be unable to continue in our current form and will be forced to restructure or seek creditor protection.

**7. We have historically had negative working capital, which will impair our ability to continue operations if we are unable to reverse this trend.**

We had negative working capital of \$2,549,209 and \$2,818,649 as of December 31, 2004 and September 30, 2005, respectively. Due to this situation we have structured payments to vendors in a manner to continue operations. Our vendors may decide to stop providing services and/or materials until we are able to pay them according to their terms. Our vendors may decide to no longer offer credit to us. A large portion of our accounts payable are due to our legal support vendors and they may cease to assist us until we can make satisfactory payment arrangements. If

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we cannot raise capital, we will need our lenders to extend payment terms or accept stock in lieu of cash, which they may not be willing to do. If we are unable to arrange new financing or convince our lenders to extend payment terms or accept stock in lieu of cash, we may be unable to continue in our current form and be forced to restructure or seek creditor protection.

### **8. Significant amounts of our outstanding common shares are restricted from immediate resale but will be available for resale into the market in the near future, which could potentially cause the market price of our common stock to drop significantly.**

As of December 16, 2005, we had 40,870,291 shares of common stock issued and outstanding held by approximately 460 shareholders of record. The shares we are registering in this offering once registered may be resold in the public market immediately, resulting in an additional 5,103,271 common shares available for resale.

As restrictions on resale for these shares being registered and the remaining outstanding shares end, the market price could drop significantly if the holders of these restricted shares sell them or are perceived by the market as intending to sell them in an excessive amount relative to the market demand for our shares. An excessive sale of our shares may result in a substantial decline in the price of our common stock, and limit our ability to raise capital.

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**BLAST ENERGY SERVICES, INC.**

**9. One principal stockholder can influence the corporate and management policies of our company.**

Berg McAfee Companies, and its affiliates, effectively control approximately 27% of the outstanding common stock. Therefore, Berg McAfee Companies, and its affiliates, may have the ability to substantially influence all decisions made by us. Additionally, Berg McAfee Companies and its affiliates' control could have a negative impact on any future takeover attempts or other acquisition transactions. Furthermore, certain types of equity offerings require stockholder approval depending on the exchange on which shares of a company's common stock are traded. In the event we are required to obtain stockholder approval of a financing, Berg McAfee Companies, and its affiliate ownership, could block such a financing. The control by one principal stockholder results in less control by our board of directors, management and the remaining stockholders. Please read "Certain Relationships and Related Transactions."

**11. SEC investigation and inquiries may continue to draw on our limited financial resources and continue to negatively impact our ability to raise additional capital.**

We received notice that the Securities and Exchange Commission initiated a formal investigation into our reporting practices and public statements about the company in 2003.

The SEC has requested substantiation and documentary evidence from us concerning the performance of certain lateral drilling services by subcontractors in the period from May 2003 to September 2003, supervision of such services by our executive management at the time, revenue recognition related to the performance of such services, the third quarter 2003 earnings restatement, public statements concerning the services performed, and related matters. The SEC has also requested information and documentary evidence related to our acquisition of certain assets of QuikView, Inc., a related party company, in June, 2003.

In December 2004, the staff of the SEC notified us that it was considering recommending that the SEC bring a civil injunction (including a possible permanent injunction and a civil penalty) against us alleging violations of provisions of the Sections 10(b), 13(b)(2)(A), 13(b)(2)(B) and 15(d) of the Securities Exchange Act of 1934 and rules promulgated thereunder in connection with the purchase and sale of our securities, recordkeeping, internal controls, certification and disclosure obligations. We were notified of our right to make a Wells submission. We have provided information to the SEC setting forth the specific steps we have taken to upgrade the quality and effectiveness of our board of directors, replace the previous management team with industry experts, improve our recordkeeping, internal and disclosure controls, and revenue recognition procedures. The investigation or any settlement may not be resolved positively and could strain our limited financial resources and our ability to raise capital and use our stock as acquisition currency during the period of the investigation.

**12. We are subject to certain additional lawsuits. If these lawsuits are successful and substantial damages are awarded, these damages would have a material adverse effect on our financial condition.**

In February 2005, we entered into an Agreed Judgment and Order of Severance with Gryphon Master Fund, L.P. ( "Gryphon" ) as to all breach of contract claims related to our delay in registering common stock acquired by Gryphon in October 2003. Under the terms of the Agreed Judgment, we are obligated to pay \$500,000 to Gryphon on or before September 30, 2005. In November 2005, we paid Gryphon \$250,000 in partial settlement of the Agreed Judgment. Gryphon agreed to postpone any discovery in connection with collection efforts on the remaining

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\$250,000 until January 2006. If we fail to pay the remaining \$250,000 when due, Gryphon can initiate collection efforts and begin execution on the judgment. Our current cash position is sufficient to satisfy this obligation. As part of the initial settlement, Gryphon agreed to abate their remaining claims and related discovery on the lawsuit against us until after September 30, 2005. In the lawsuit, Gryphon has also claimed that it has sustained actual damages in excess of \$6.2 million. In July 2004, Gryphon filed a lawsuit in state district court in Dallas, Texas against us, alleging, among other things, breach of contract and securities fraud by us. In connection with the lawsuit, Gryphon requested liquidated damages, actual damages, punitive damages, interest, cost and attorneys' fees among other claims. If Gryphon prevails on the remaining claims, it may obtain significant damages that may have a material adverse effect on our financial condition.

An adverse outcome in any of the above litigation could subject us to additional financial obligations, which our cash position may not be sufficient to meet. If we are unable to meet such obligations (including the payment of the balance on the Agreed Judgment) through revenue from operations or obtaining additional financing, we may be unable to continue in our current form and be forced to restructure or seek creditor protection.

Please see the section Legal Proceedings.



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**BLAST ENERGY SERVICES, INC.**

**13. Our common stock is currently traded over the counter on the OTC Bulletin Board and is considered a penny stock resulting in potential illiquidity and high volatility in the market price of our common stock.**

The market price of our common stock is likely to be highly volatile, as is the stock market in general, as well as the capital stock of most small cap companies. Our common stock currently trades over the counter on the OTC Bulletin Board, where stocks typically suffer from lower liquidity. This may lead to depressed trading prices, greater price volatility and difficulty in buying or selling shares in large quantities. Currently, there is a limited trading market for our common stock. If a fully developed public market for the common stock does not occur, our stock will continue to have reduced liquidity and our shareholders may have difficulty in selling our stock.

**14. Because our common stock is considered a penny stock, certain rules may impede the development of increased trading activity and could affect the liquidity for stockholders.**

Penny stocks generally are equity securities with a price of less than \$5.00 per share other than securities registered on certain national securities exchanges or quoted on the NASDAQ stock market, subject to certain exceptions for companies which exceed certain minimum tangible net worth requirements.

Our common stock is subject to the SEC's penny stock rules. The rules impose additional sales practice requirements on broker-dealers who sell penny stock securities to persons other than established customers and accredited investors. For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of penny stock securities and have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the penny stock rules require the delivery, prior to the transaction, of a disclosure schedule relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. And, monthly statements must be sent disclosing recent price information on the limited market in penny stocks. These rules may restrict the ability of broker-dealers to sell our securities and may have the effect of reducing the level of trading activity of our common stock in the secondary market. In addition, the penny-stock rules could have an adverse effect on our ability to raise capital in the future from offerings of our common stock.

On July 7, 2005, the SEC approved amendments to the penny stock rules to ensure that investors continue to receive the protections of those rules. The amendments also provide that broker-dealers be required to enhance their disclosure schedule to investors who purchase penny stocks, and that those investors have an explicit cooling-off period to rescind the transaction. These amendments could place further constraints on broker-dealers' ability to sell our securities.

**15. Our operations are subject to inherent risks that are beyond our control and such risks may not be fully covered under our insurance policies or under our contracts with customers.**

We plan to deploy the first drilling rig utilizing high pressure abrasive jetting and the application of the technology does not have a safety history. However, we expect our operations to be subject to hazards inherent in the oil and gas industry, such as accidents, blowouts, explosions, craterings, fires and oil spills. These conditions can cause:

personal injury or loss of life;

damage to or destruction of property, equipment and the environment; and

suspension of operations.

In addition, claims for loss of oil and gas production and damage to formations can occur in the well service industry. Litigation arising from a catastrophic occurrence at a location where our equipment and services are being used may result in us being named as a defendant in lawsuits asserting large claims.

We mandate, in our customer contracts, that our customers indemnify us from operational hazards. We also maintain insurance coverage that we believe to be customary in the industry against these hazards. However, we may not be able to maintain adequate insurance in the future at rates we consider reasonable. In addition, our insurance is subject to coverage limits and our policies typically exclude coverage for damages resulting from environmental contamination, damage to the well bore, blow-outs and other extraordinary events. The occurrence of a significant event or adverse claim excluded by or in excess of the indemnities we receive or the insurance coverage that we maintain or that is not covered by insurance could potentially strain our limited financial resources.

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**BLAST ENERGY SERVICES, INC.**

**16. We are subject to various operational and performance risks related to projects that we undertake and services that we provide.**

We are subject to various operational and performance risks related to projects that we undertake and services that we provide. These risks include:

changes in the price or the availability of commodities that we use;

non-performance, default or bankruptcy of key suppliers or subcontractors;

cost over-runs and operating cost inflation resulting from fixed-price projects; and

failure by one or more parties to a complex business arrangement for technically demanding projects.

Some of these risks may be beyond our control, or we may be unable to collect on the indemnities we typically ask for to guard against some of these risks.

**17. Our markets may be adversely affected by oil and gas industry conditions that are beyond our control.**

Oil and gas industry conditions are influenced by numerous factors over which we have no control, such as the supply of and demand for oil and gas, domestic and worldwide economic conditions, political instability in oil producing countries and merger and divestiture activity among oil and gas producers. Those conditions could reduce the level of drilling and workover activity by oil and gas producers. A reduction in activity could increase competition among energy services business such as ours, making it more difficult for us to attract and maintain customers, or could adversely affect the price we could charge for our services.

**18. Our success depends on key members of our management, the loss of whom could disrupt our business operations.**

We depend to a large extent on the services of some of our executive officers and directors. The loss of the services of either John O. Keefe or David Adams could disrupt our operations. We may not be able to retain our executive officers and may not be able to enforce the non-compete provisions in the employment agreements. We maintain key man insurance against the loss of these individuals. Failure to retain key members of our management may have a material adverse effect on our continued operations.

**19. Compliance with Section 404 of the Sarbanes-Oxley Act will strain our limited financial and management resources.**

We are required to comply with the requirements of Section 404 of the Sarbanes-Oxley Act ( Sarbanes ) for our fiscal year ended 2007, which requires annual management assessments of the effectiveness of our internal controls over financial reporting and our auditor s attestation report on management s assessment. During the course of our testing we may identify deficiencies, which we may not be able to remediate in time to meet the deadline imposed. Effective internal controls are necessary for us to produce reliable financial reports and may be important to prevent financial fraud. If we cannot comply with Section 404, our stock price may decrease as investors lose confidence in the accuracy of our reported financial information. Compliance with Section 404 will likely require the Company to expend significant financial and management resources, which are extremely limited at this time and would therefore divert such resources from our day-to-day operations.

### **RISKS RELATED TO OUR ABRASIVE JETTING BUSINESS**

**1. We currently have no active customers and in the past we were highly dependent on a small number of customers, two of whom are related parties.**

We have no active customers or revenue for our abrasive jetting services since we are in the construction mode. Our current indications of interest in the new AFJ drill rig may not convert into customer orders or cash revenue. In the past, a relatively limited number of customers has accounted for a substantial portion of our revenue. One customer accounted for 14%, 38% and 87% of total revenues in 2004, 2003, and 2002, respectively. In the second half of 2003, 53% of our revenue was derived from services provided to three customers. Of those three customers, two may be considered related parties. In the same period, 52% of our revenue was derived from services provided to the two related parties. In addition, Edge, our only non-related customer in that period, has refused to pay for wells drilled in the second half of 2003, resulting in a total of \$1,993,000 being reversed or deferred. A further discussion of related party transactions is provided under Certain Relationships and Related Transactions. If we are unable to attract new customers and generate sufficient revenue or arrange new financing, we will be unable to continue in our current form and will be forced to restructure or seek creditor protection.

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**2. Our business plan relies on the successful deployment of a new generation drilling rig utilizing abrasive fluid jetting.**

Our abrasive jetting service intends to provide casing milling, well stimulation and lateral drilling services to oil and gas producers. Applications of such abrasive 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 business. We are currently building a custom drilling rig based on the abrasive jetting concept. Since we would be among the first to commercially apply the proven abrasive jetting techniques to the energy producing business, we cannot guarantee that our custom drilling rig design based on the abrasive jetting concept will be adequate, that the rig will be built correctly or timely, or that the abrasive jetting technology will stimulate additional oil and gas production. We may not achieve the designed results for the rig. The rig may cost more than our current estimate of \$1.2 million. Customers may not accept the services we offer. Any of these results would have a negative impact on the development of our abrasive jetting business.

**3. We may not be able to protect our abrasive jetting technology, which could result in competition with service providers utilizing an infringing technology.**

The technology purchase agreement between Alberta Energy Partners ( Alberta ) and Blast Energy allocates responsibility for maintaining the status of the patents underlying the technology with the US Patent and Trademark Office to Alberta. Although Alberta has performed this obligation in the past, they may not have the ability to continue to maintain the patents. In the event we had to assume these responsibilities, additional pressure on our financial resources would result. Competition from infringers of our technology may significantly impair the development of our abrasive jetting business.

**4. Our customers may not realize the expected benefits from our abrasive jetting technology, which may impair market acceptance of our drilling services. Such concerns will cause Blast to provide additional technical screening of market opportunities.**

Our abrasive jetting business will be heavily dependent upon our clients achieving enhanced production, or lower costs, from certain types of existing oil and gas wells. Many of the wells for which the abrasive jetting technology will be used on have been abandoned for some time due to low production volumes or other reasons. In some cases, we have experienced difficulty in having the enhanced production reach the market due to the gathering field pipeline system s disrepair resulting from the age of the fields and the reliability of the milling process. Our abrasive jetting technology may not achieve enhanced production from every well drilled, or, if enhanced production is achieved initially, it may not continue for the duration necessary to achieve payout or reach the market on a timely basis. The failure to screen adequately and achieve projected enhancements could result in making the application of the technology uneconomic for our clients. Failure to achieve an economic benefit for our clients in the provision of this service would significantly impair the development of our abrasive jetting business and limit our ability to achieve revenue from these operations.

**5. Geological uncertainties may negatively impact the effectiveness of abrasive jetting services.**

Oil and gas fields may be depleted and zones may not be capable of stimulation by our abrasive jetting technology due to geological uncertainties such as lack of reservoir drive or adequate well pressure. Such shortcomings may not be identifiable. The failure to avoid such shortcomings could have a material adverse effect on our results of operations and financial condition.

**6. Competition within the well service industry may adversely affect our ability to market our services.**

The well service industry is highly competitive and includes several large companies as well as other independent drilling companies that possess substantially greater financial and other resources than we do. These greater resources could allow those competitors to compete more effectively than we can. Additionally, the number of rigs available continues to exceed demand, resulting in active price competition. Moreover, many contracts are awarded on a bid basis, which further increases competition based on price. Failure to successfully compete within our industry would significantly impair the development of our abrasive jetting business and limit our ability to generate revenue from these operations.

**7. We may be subject to environmental requirements that may increase our costs or liabilities related to our abrasive jetting operations.**

Given the manner in which we currently operate our business, we are not regulated to the extent that an oil and gas company is with respect to environmental laws, rules and regulations in the U.S. and other countries, including those covering hazardous materials, because we generally do not own the properties we service. Also, the materials we use to provide abrasive jetting services consist primarily of water and fine garnet sand, neither of which are hazardous materials. However,

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environmental requirements generally are becoming increasingly strict. In the future, we may be held liable for certain failures relating to environmental regulations. Sanctions for failure to comply with these requirements, many of which may be applied retroactively, may include:

administrative, civil and criminal penalties;

revocation of permits; and

corrective action orders, including orders to investigate and/or clean up contamination.

Liability for damages arising as a result of environmental laws could be substantial and could have a material adverse effect on our results of operations. The liabilities incurred as a result of complying with environmental requirements or failure on our part to comply with applicable environmental requirements may have a material adverse effect on our financial condition. Governmental laws could broaden in scope in the future to cover the types of services that we currently provide. Any changes that might require us to comply with environmental laws could require us to make significant additional expenditures to reach and maintain compliance and may otherwise have a material adverse effect on our industry in general and on our results of operations and financial condition.

**8. Changes in environmental laws may decrease demand for our services.**

Changes in environmental laws may negatively impact demand and reduce potential revenues from our downhole well services. Activity by exploration and production companies may decline if, for example, the Environmental Protection Agency promulgates more stringent environmental regulations such as land use policies. If exploration and production drilling activity declines, this could have a material adverse effect on our ability to market downhole services as the number of potential clients and overall market size may decline.

**RISKS RELATED TO OUR SATELLITE BUSINESS**

**1. Our satellite business is highly dependent upon a few key providers, who furnish satellite networking components, hardware, and technological services.**

Our satellite business is heavily dependent on agreements with Spacenet, ViaSat and other equipment and service providers. These strategic relationships provide key network technology, satellite data transport, hardware and software. Failure of Spacenet, ViaSat or other key relationships to meet our expectations or termination of a relationship with one of our key providers could adversely affect our ability to provide customers with our satellite services and could lead to a loss in revenues, which would adversely affect our results of operations and financial condition.

**2. We depend upon our vendors and their affiliates to provide services that we require to operate the network we use to provide services to our customers.**

We are not and do not plan to become a licensee of the Federal Communications Commission ( FCC ) and do not hold any authorization to operate satellite communications facilities. We depend upon licenses held by Spacenet and ViaSat and their subsidiaries for our satellite communications. If the licenses held by Spacenet and ViaSat are limited or revoked, if the FCC limits the number of its customer premises earth stations or if Spacenet or ViaSat fails to operate the earth stations providing service to us and our subscribers in a satisfactory manner, we may not be able to provide our customers with proper service, which could lead to a loss in revenues and could adversely affect our results of operations and financial condition.

**3. We rely on third-party independent contractors to install our customer premises equipment at new subscribers businesses and homes.**

We do not control the hiring, training, certification and monitoring of the employees of our third-party independent contractors. If growth of our new subscriber base outpaces growth of our installer base or if the installers fail to provide the quality of service that our customers expect, the introduction of our service could be delayed, and which could lead to a deferment or loss in satellite revenues.

**4. The service we provide is entirely dependent on the functionality of satellites on which we lease transponders and on our computer and communications hardware and software.**

Our ability to provide service is entirely dependent on the functionality of satellites on which we lease transponders. These satellites may experience failure, loss, damage or destruction from a variety of causes, including war, anti-satellite devices and collision with space debris. The ability to provide timely information and services depends also on the efficient and uninterrupted operation of our computer and communications hardware and software systems. These systems and operations



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are vulnerable to damage or interruption from human error, natural disasters, telecommunication failures, break-ins, sabotage, computer viruses, intentional acts of vandalism and similar events. Despite precautions, there is always the danger that human error or sabotage could substantially disrupt the system.

If any of these events occurs, we are likely to suffer:

permanent loss of service;

temporary gaps in service availability; or

decreased quality of service.

Any such failure in the service we provide could lead to a loss in revenues and could adversely affect our results of operations and financial condition.

**5. We may be unable to attract or retain subscribers.**

If we are unable to attract or retain subscribers, our telecommunications business will be harmed. Our success depends upon our ability to rapidly grow our subscriber base. Several factors may negatively impact this ability, including:

loss of our existing sales employees, resulting in our lack of access to potential subscribers;

failure to establish and maintain the Blast Energy Services brand through advertising and marketing, or erosion of our brand due to misjudgments in service offerings;

failure to develop or acquire technology for additional value added services that appeals to the evolving preferences of our subscribers;

failure to meet our expected minimum sales commitments to Spacenet and ViaSat; and

failure to provide the minimum transmission speeds and quality of service our customers expect.

In addition, our service may require customers to purchase our satellite system equipment and to pay our monthly subscriber fees. The price of the equipment and the subscription fees may be higher than the price of many dial-up, DSL and cable modem internet access services, where available. In some instances, we expect to subsidize our subscribers' customer premises equipment to encourage the purchase of our service and to offset our higher relative costs but such subsidy may not be possible. Failure to attract or retain subscribers would affect our ability to generate satellite revenues.

**6. We may fail to manage any potential growth or expansion, negatively impacting our quality of service or overcapacity impacting profitability.**

If we fail to manage our potential rapid growth and expansion effectively or expand and allocate our resources efficiently, we may not be able to retain or grow our subscriber base. While we believe that the trend toward satellite broadband information services in the energy market will continue to develop, our future success is highly dependent on increased use of these services within the sector. The number of satellite broadband users willing to pay for online services and information may not continue to increase. If our assumptions regarding the usage patterns of our subscribers are wrong, our subscribers' usage patterns change or the market for satellite broadband services fails to develop as expected, we will have either too little or too much satellite capacity, both of which could harm our business.

If we achieve the substantial subscriber growth that we anticipate, we will need to procure additional satellite capacity. If we are unable to procure this capacity, we may be unable to provide service to our subscribers or the quality of service we provide may not meet their expectations. Failure to manage any potential growth may have a material adverse effect on our business and our ability to generate satellite revenues.

**7. Our current services may become obsolete due to the highly competitive and continued advancement of the satellite industry. Larger service providers may provide services reduced pricing.**

Intense competition in the internet services market and inherent limitations in existing satellite technology may negatively affect the number of our subscribers. Competition in the market for consumer internet access services is intense, and we expect the level of competition to intensify in the future. We compete with providers of various high-speed communications technologies for local access connections such as cable modem and DSL. We also may face competition from traditional telephone companies, competitive local exchange carriers and wireless communication companies. As our competitors expand their operations to offer high speed internet services, we may no longer be the only high-speed service available in

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certain markets. We also expect additional competitors with satellite-based networks to begin operations soon. In particular, some satellite companies have announced that in the future they may offer high-speed internet service at the same price or at a lower price than we currently intend to offer and are offering our services. The market for internet services and satellite technology is characterized by rapid change, evolving industry standards and frequent introductions of new technological developments. These new standards and developments could make our existing or future services obsolete. Many of our current and potential competitors have longer operating histories, greater brand name recognition, larger subscriber bases and substantially greater financial, technical, marketing and other resources than we have. Therefore, they may be able to respond more quickly than we can respond to new or changing opportunities, technologies, standards or subscriber requirements. Our effort to keep pace with the introduction of new standards and technological developments and effectively compete with larger service providers could result in additional costs or the effort could prove difficult or impossible. The failure to keep pace with these changes and to continue to enhance and improve the responsiveness, functionality and features of our services could harm our ability to attract and retain users, which could lead to a loss of satellite revenues.

**8. We may be subject to significant liability for our products.**

If our products contain defects, we may be subject to significant liability claims from subscribers and other users of our products and incur significant unexpected expenses or lost revenues. Our telecommunications products are complex and may contain undetected errors or failures. We also have exposure to significant liability claims from our customers because our products are designed to provide critical communications services. Our product liability insurance and contractual limitations in our customer agreements may not cover all potential claims resulting from a defect in one or more of our products. Failure of our products to perform satisfactorily could cause us to lose revenue, as well as to experience delay in or loss of market acceptance and sales, products returns, diversion of research and development resources, injury to our reputation or increased service and warranty costs.

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**Use of Proceeds**

We will not receive any of the proceeds from the sale of our common stock offered by the selling stockholders. However, we may receive proceeds upon the exercise of all of the warrants, options or other rights held by the selling stockholders if such warrants, options or other rights are exercised for cash. The total potential proceeds from the exercise of these warrants, options or other rights are \$116,000. Such funds, if any, will be used for working capital and general corporate purposes. We have agreed to bear all costs associated with the registration of the shares covered by this registration statement.

**Selling Security Holders**

This Prospectus covers a total of 5,103,271 shares of our common stock to be sold by the selling stockholders, including:

4,073,271 shares of our common stock issued and outstanding;

1,030,000 shares of common stock issuable upon exercise of outstanding warrants, options, or other rights.

After the registration statement of which this prospectus is a part becomes effective and subject to applicable rules and restrictions of the Securities Act of 1933, security holders may from time to time sell the shares on the OTC Bulletin Board or any other securities exchange or automated quotation system on which the common stock may be listed or traded, in negotiated transactions or otherwise, at the prices then prevailing or related to the then current market price or at negotiated prices. We shall neither be involved in determination of the price nor shall receive any proceeds from the sale of any shares sold by selling security holders. Shares being registered were issued to the selling stockholders in connection with transactions exempt from the registration requirements of the Securities Act of 1933, as amended.

Our common shares are currently traded on the OTC Bulletin Board under the symbol **BESV.OB** .

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The following table lists:

all of the stockholders and amount of shares to be registered under this offering;