BLAST ENERGY SERVICES, INC.
Form SB-2
October 24, 2006

As filed with the Securities and Exchange Commission on October 24, 2006
Registration No. 333-___________

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM SB-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

BLAST ENERGY SERVICES, INC.
(Exact name of registrant as specified in its charter)

California	**1382**	**22-3755993**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

14550 Torrey Chase Boulevard, Suite 330
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:

Michael T. Larkin

Adams and Reese, LLP
4400 One Houston Center
1221 McKinney Street
Houston, Texas 77010
(713) 652-5151

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. ¨

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

Title of each class of securities to be registered	**Amount to be registered**	**Proposed maximum offering price per share**	**Proposed maximum aggregate offering price**	**Amount of registration fee**
Common Stock, no par value per share	42,268,552	$0.76 (1)	$32,124,100 (1)	$3,437.28

(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 OTC Bulletin Board on October 20, 2006.

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.

Subject to Completion, dated October __, 2006

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.

BLAST ENERGY SERVICES, INC.
14550 TORREY CHASE BOULEVARD, SUITE 330
HOUSTON, TEXAS 77014-1022
(281) 453-2888

PROSPECTUS

42,268,552 SHARES
COMMON STOCK

We are registering up to 42,268,552 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 42,268,552 shares of our common stock subject to this Prospectus, 23,404,052 shares of our common stock are currently issued and outstanding; 18,864,500 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 18.

The securities being registered trade on the OTC Bulletin Board under the symbol “BESV.OB”. On October 20, 2006, the last reported sales price of our common stock was $0.77 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 4.

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 October __, 2006.

BLAST ENERGY SERVICES, INC.

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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 provide quality services to the energy industry through our three divisions: contract land drilling, specialty completion applications, and satellite communication services to remote locations. Our strategy is to grow our businesses by maximizing our equipment capacity and controlling costs while analyzing potential acquisition and new technology opportunities in the energy service sector.

As a result of a recent acquisition, we established our contract land drilling business. We currently own three US onshore drilling rigs with an additional two land rigs near completion that are scheduled for field deployment in October and November of 2006, respectively. We have also contracted for a sixth rig scheduled for delivery in early 2007. Four of the rigs have the capability to drill from 10,000 to 12,000 feet and another two rigs have the capability to drill from 15,000 to 16,000 feet depending on casing size. Substantially all of our rigs can operate in conventional crude oil and natural gas producing areas, where conventional and specialized drilling techniques are required to develop crude oil and natural gas resources efficiently. All of our drilling rigs are equipped to handle drilling for horizontal wells. Horizontal drilling is a specialized drilling technique intended to increase the exposure of the wellbore to the natural gas producing formation and increase drainage rates and production volumes. We expect to generate revenues from our contract land drilling business by entering into dayrate contracts with oil and gas operators and producers to utilize the rigs and services. We presently have dayrate contracts with three customers for three of our drilling rigs and are in discussions with other potential customers for three additional rigs.

We expect upside growth potential from our down-hole energy solutions 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 using abrasive fluid jetting (AFJ) and the principles gained from the non-abrasive process used in the Landers lateral drilling technology. After redesigning and improving the existing process and introducing AFJ technology, we now believe that we can deliver a valuable and cost effective production enhancement service to onshore oil and gas producers, particularly operators of marginal wells. We have recently completed the construction of a new generation specialty rig based upon modifications using existing coiled tubing technology as the primary platform. The capabilities of our new rig include: one-inch coiled tubing with a working depth capability of 8,000 feet; a fluid pressure pumping system; an abrasive slurry system; and a computer-controlled system to guide and control the down-hole formation access tool for precise casing milling and jetting services. The new generation rig was deployed during 2006 and is currently undergoing developmental tests with the U.S. Department of Energy Rocky Mountain Oilfield Testing Center at their facility outside Casper, Wyoming. After the initial rig establishes a reliable and commercial oilfield service, we intend to begin construction of additional rigs with similar capabilities as the market demands.

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

Corporate History

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.

In August 2006, we acquired Eagle Domestic Drilling Operations LLC, a drilling contractor with three land rigs, and three more under construction and expected to be deployed in October 2006, November 2006 and early 2007, respectively. This acquisition adds a major new segment to our business, which is expected to be the primary segment near term.

Summary of the Offering

Shares outstanding before the offering	66,722,904 [(1)]
Shares offered by selling stockholders	42,268,552 shares of our common stock. [(1)(2)]
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 $ 9,182,170 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"

(1) As of October 20, 2006, including 1,150,000 approved shares arising from the class action settlement.

(2) As of October 20, 2006 and includes 18,864,500 shares of common stock issuable upon exercise of rights, warrants, or options.

<u>Risk factors</u>

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. We have a limited operating history, just completed a major acquisition, and our business and marketing strategies planned are not yet proven, which makes it difficult to evaluate our business performance. An investor could lose some or all of his investment.

We have been in existence for a few years. We only recently completed a major acquisition of a drilling service contracting business and have no history with the business. We have not yet been able to commercialize the capabilities of our abrasive jetting technology and are not conducting operations with the prior technology. Abrasive jetting has been successfully commercialized in several industries but is not yet proven in the energy drilling industry. Also, we have conducted satellite services to the oil and gas industry only since June 2002. We have no established basis to assure investors that our business or marketing strategies will be successful. Because we have a limited operating history, there is little historical financial data upon which an investor may evaluate our business performance. 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 meet our debt service and capital obligations, develop a commercial milling or jetting process with our abrasive jetting 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.

2. We have a limited customer base. The loss of those customers or the inability to attract new additional customers would have a material adverse effect on us.

In our contract land drilling business we recently acquired, we presently have three active customers under short term contracts. Due to the short-term nature of these contracts, we will either have to extend the contract or obtain replacements to generate continued revenue. The loss of these customers or the inability of us to attract other permanent customers to utilize our drilling rigs at the appropriate rates and terms would inhibit us from generating positive cash flow. If we are unable to generate sufficient positive cash flow from operations, we might not be able to satisfy our debt obligations. In such a case, if we were unable to restructure our debt or raise additional capital, we would be unable to continue in our current form and will be forced to restructure or seek creditor protection.

3. We are highly leveraged which limits our financial flexibility.

In order to finance the acquisition of our contract drilling business, we entered into a $40.6 million senior note, which is secured by substantially all of our assets. The note bears interest at the rate of prime plus 2.5%. This transaction makes the company highly leveraged. In addition, the note has monthly interest payments and principal payments until the loan is repaid in full in three years.

Our senior note also contains various covenants that limit our ability to engage in specified types of transactions. These covenants limit our ability to, among other things:

- Incur additional indebtedness or issue certain types of securities
- Pay dividends or make distributions of our capital stock
- Make certain investments, including capital expenditures
- Sell or merge certain assets
- Create liens and
- Consolidate, merge, sell or otherwise dispose of all or substantially all our assets

If we are unable to meet our debt service requirements, satisfy our debt covenants or any other event were to occur which would cause an event of default under the note, we will be unable to continue in our current form and will be forced to restructure or seek creditor protection.

4. We may be unable to raise the additional capital needed to fund our businesses, which would prevent us from continuing operations.

We may need to raise additional funds through public or private debt or equity financing or other various means to fund our business if we are unable to successfully generate positive cash flow and service our debt. In such a case, adequate funds may not be available when needed or may not be available on favorable terms. If we need to 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. We may be unable to raise additional funds by issuing debt securities due to our high leverage and due to restrictive covenants contained in our senior debt, which 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.