

BLAST ENERGY SERVICES, INC.

Form 10QSB

November 14, 2005

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

**Washington, D.C. 20549**

**FORM 10-QSB**

(Mark One)

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

For the quarterly period ended September 30, 2005

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**333-64122**

(Commission file number)

**BLAST ENERGY SERVICES, INC.**

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

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

**22-3755993**  
(IRS Employer  
Identification No.)

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**14550 Torrey Chase Blvd, Suite 330**

**Houston, Texas 77014**

**(Address of principal executive offices)**

**(281) 453-2888**

**(Issuer's telephone number)**

**Verdisys, Inc.**

**(Former name if changed since last report)**

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.  
Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of each of the issuer's classes of common equity as of November 8, 2005: 40,482,206 shares of common stock

The common stock of Blast Energy Services, Inc. is traded on the NASDAQ Bulletin Board under the symbol **BESV**.

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

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**Blast Energy Services, Inc.**

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**BLAST ENERGY SERVICES, INC.**

**(FORMERLY VERDISYS, INC.)**

**PART I. FINANCIAL INFORMATION**

**ITEM 1. Financial Statements**

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## BLAST ENERGY SERVICES, INC.

(Formerly Verdisys, Inc.)

## BALANCE SHEET

(Unaudited)

September 30, 2005

Assets	
Current Assets:	
Cash	\$ 311,715
Accounts receivable, net of allowance for doubtful accounts of \$10,290	197,015
Other current assets	69,055
<b>Total Current Assets</b>	<b>577,785</b>
Equipment, net of accumulated depreciation of \$143,611	1,055,088
Licenses, net of accumulated amortization of \$799,983	4,510,017
<b>Total Assets</b>	<b>\$ 6,142,890</b>
Liabilities and Stockholders Equity	
Current Liabilities	
Accounts payable	\$ 696,824
Accrued expenses	952,301
Advances-related parties	900,000
Deferred revenue	216,668
Customer deposits	76,850
Notes payable-related parties, net of unamortized discount of \$23,840	176,160
Notes payable-other, net of unamortized discount of \$17,369	377,631
<b>Total Current Liabilities</b>	<b>3,396,434</b>
Long Term Liabilities:	
Note payable-other	500,000
Deferred revenue, less current portion	6,780
<b>Total Liabilities</b>	<b>3,903,214</b>
Commitments and Contingencies	
Stockholders Equity:	
Common Stock, \$.001 par value, 100,000,000 shares authorized; 40,486,206 shares issued and outstanding	40,482
Additional paid in capital	29,176,819
Accumulated deficit	(26,977,625)
<b>Total Stockholders Equity</b>	<b>2,239,676</b>
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 6,142,890</b>



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## BLAST ENERGY SERVICES, INC.

(Formerly Verdisys, Inc.)

## STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
<b>Revenue:</b>				
Satellite Communications	\$ 293,937	\$ 154,906	\$ 802,712	\$ 401,705
Downhole Services	8,500	427,519	27,491	694,180
<b>Total Revenue</b>	<b>302,437</b>	<b>582,425</b>	<b>830,203</b>	<b>1,095,885</b>
<b>Cost of Services Provided:</b>				
Satellite Communications	217,979	153,668	603,097	464,874
Downhole Services	113,493	272,080	351,045	688,906
<b>Total Cost of Services Provided</b>	<b>331,472</b>	<b>425,748</b>	<b>954,142</b>	<b>1,153,780</b>
<b>Gross Margin (Deficit)</b>	<b>(29,035)</b>	<b>156,677</b>	<b>(123,939)</b>	<b>(57,895)</b>
<b>Operating Expenses:</b>				
Selling, general and administrative	963,581	936,591	2,485,545	3,382,053
Depreciation and amortization	102,410	130,051	321,062	395,982
Bad debts		50,000	10,000	50,000
<b>Operating Loss</b>	<b>(1,095,026)</b>	<b>(959,965)</b>	<b>(2,940,546)</b>	<b>(3,885,930)</b>
<b>Other (Income) Expense:</b>				
Interest expense	50,400	14,544	147,262	454,422
(Gain) loss on sale of equipment		1,900	(971)	1,900
Interest income		(31)	(4)	(48)
<b>Total other (income) expense</b>	<b>50,400</b>	<b>16,413</b>	<b>146,287</b>	<b>456,274</b>
<b>Net Loss</b>	<b>\$ (1,145,426)</b>	<b>\$ (976,378)</b>	<b>\$ (3,086,833)</b>	<b>\$ (4,342,204)</b>
<b>Basic and diluted net loss per share</b>	<b>\$ (0.03)</b>	<b>\$ (0.03)</b>	<b>\$ (0.09)</b>	<b>\$ (0.14)</b>
Weighted average shares outstanding	38,034,048	31,523,265	36,309,792	30,986,520

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## BLAST ENERGY SERVICES, INC.

(Formerly Verdisys, Inc.)

## STATEMENTS OF CASH FLOWS

(Unaudited)

	<b>For the Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Cash Flows from Operating Activities:</b>		
Net loss	\$ (3,086,833)	\$ (4,342,204)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock issued for services or litigation	1,066,761	948,192
Option and warrant expense	75,000	290,844
Amortization of note discount	91,235	25,685
Depreciation and amortization	321,062	395,982
(Gain) loss on sale of equipment	(971)	1,900
Note payable issued for lawsuit settlement	500,000	
Bad debts	10,000	50,000
Change in working capital items	(139,301)	844,726
<b>Net Cash Used in Operating Activities</b>	<b>(1,163,047)</b>	<b>(1,784,875)</b>
<b>Cash Flows from Investing Activities:</b>		
Purchase of property and equipment	(1,000)	(3,705)
Proceeds from sale of equipment		12,500
Proceeds from sale of license	885,000	
Construction of equipment	(812,955)	
<b>Net Cash Provided by Investing Activities</b>	<b>71,045</b>	<b>8,795</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from sale of stock	241,500	359,000
Proceeds from exercise of options and warrants	300	81,217
Advance on future financing	900,000	
Proceeds from notes payable to stockholders		220,000
Payments on notes payable	(5,000)	
Payments on notes payable to stockholders		(35,000)
Payments on note payable related to license		(500,000)
Proceeds from convertible notes		400,000
<b>Net Cash Provided by Financing Activities</b>	<b>1,136,800</b>	<b>525,217</b>
<b>Net change in cash</b>	<b>44,798</b>	<b>(1,250,863)</b>
Cash at beginning of period	266,917	1,373,627
<b>Cash at end of period</b>	<b>\$ 311,715</b>	<b>\$ 122,764</b>



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### Non-Cash Transactions:

Conversion of accounts payable to common stock	\$	206,737	\$	
Exchange of equipment for customer deposit		175,000		
Exchange of equipment for accounts payable		3,883		
Conversion of notes payable and accrued interest to common stock		225,966		1,184,808
Conversion of accrued bonuses to common stock		197,474		
Discount on notes payable				133,746
Exchange of intangible for 3 million shares of common stock		1,170,000		

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**BLAST ENERGY SERVICES, INC.**

**(FORMERLY VERDISYS, INC.)**

**NOTES TO FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 1 BASIS OF PRESENTATION**

The accompanying unaudited interim financial statements of Blast Energy Services, Inc. ( Blast Energy ) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the Management's Discussion and Analysis and the audited financial statements and notes thereto contained in Blast Energy's 2004 Annual Report filed with the SEC on Form 10-KSB. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which would substantially duplicate the disclosure contained in the audited financial statements for 2004 as reported in the 10-KSB have been omitted.

Effective June 6, 2005, the Company changed its name to Blast Energy Services, Inc. from Verdisys, Inc. in part to reflect its focus on the energy service business. The Company believes such a name change creates better name recognition related to the types of service that it intends to provide and the ability to trademark new applications and services in a way to uniquely identify them with our company.

Reclassifications. Certain amounts in the financial statements of the prior year have been reclassified to conform to the presentation of the current year for comparative purposes.

**NOTE 2 GOING CONCERN**

As shown in the accompanying financial statements, Blast Energy incurred a net loss of \$3.1 million for the nine months ended September 30, 2005, has an accumulated deficit of \$27 million and a working capital deficit of \$2.8 million as of September 30, 2005 and has several significant future financial obligations. These conditions create an uncertainty as to Blast Energy's ability to continue as a going concern. Management is trying to raise additional capital. The financial statements do not include any adjustments that might be necessary if Blast Energy is unable to continue as a going concern.

**NOTE 3 STOCK OPTIONS**

Blast Energy accounts for all stock-based employee compensation plans in accordance with Statement of Financial Accounting Standard No. 123, *Accounting for Stock-Based Compensation* ( SFAS No. 123 ), which permits the measurement of compensation expense in accordance

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with Accounting Principles Board Opinion 25 *Accounting for Stock Issued to Employees* ( APB 25 ). Under APB 25, no stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to or in excess of the market value of the underlying common stock on the date of grant. Blast Energy accounts for stock-based compensation issued to non-employees in accordance with the provisions of SFAS No. 123 and EITF No. 96-18, *Accounting for Equity Investments That Are Issued to Non-Employees for Acquiring, or in Conjunction with Selling Goods or Services*. Common stock issued to non-employees and consultants is based upon the fair value of the services received or the fair value of the equity instruments issued whichever value is more reliably measurable.

In the third quarter of 2005, Blast Energy granted 90,000 ten-year options to employees with an exercise price at the then market price of \$0.40. The options vest quarterly over 36 months. There was no intrinsic value associated with the grant, however, fair value totaled \$27,114. Blast Energy also reinstated 900,000 options related to a settlement agreement in the third quarter of 2005. The options are fully vested at date of issue and have an exercise price of \$0.10. Only 300,000 of the options may be exercised in the first year. The options replaced a previous reservation of 1.6 million warrants.

In the second quarter of 2005, Blast Energy granted 50,000 ten-year options to an employee with an exercise price at the then market price of \$0.38. The options vest quarterly over 36 months. There was no intrinsic value associated with the grant, however, fair value totaled \$15,706. These options were subsequently cancelled following the voluntary resignation of this employee. Blast Energy also granted 72,000 ten year options to non-employee directors in the second quarter of 2005. The options vest over 12 months and have an exercise price of \$0.38, the market price at the date of grant. There was no intrinsic value associated with the grants, however, fair value totaled \$22,617.

In the first quarter of 2005, Blast Energy granted 130,000 ten-year options to employees with exercise prices at the then market price. The options vest quarterly over 36 months. There was no intrinsic value associated with the grants, however, fair value

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totaled \$54,231. Of these, 30,000 options were subsequently cancelled due to the voluntary resignation of an employ