BLAST ENERGY SERVICES, INC.
Form 10QSB/A
March 30, 2006

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

FORM 10-QSB/A

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

For the quarterly period ended March 31, 2005

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

For the transition period from ______ to ______

333-64122
(Commission file number)

VERDISYS, INC.
(Exact name of small business issuer as specified in its charter)

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

14550 Torrey Chase Blvd, Suite 330
Houston, Texas 77014
(Address of principal executive offices)

(281) 453-2888
(Issuer's telephone number)

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

x Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

The number of shares outstanding of each of the issuer's classes of common equity as of March 31, 2005 - 36,051,830 shares of common stock

The common stock of Verdisys, Inc. is traded on the NASDAQ Bulletin Board under the symbol "VDYS".

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

Explanatory Note

Verdisys, Inc. (now known as Blast Energy Services, Inc) is filing this amended Quarterly Report on Form 10-QSB/A for the quarterly period ended March 31, 2005 (the “Amended Quarterly Report”), to amend its Quarterly Report on Form 10-QSB for the quarterly period ended March 31, 2005 (the “Original Quarterly Report”), which was filed with the Securities and Exchange Commission on May 5, 2005.

The Amended Quarterly Report amends the disclosure under the Part I, Item 1 “Financial Statements,” Part I, Item 2 “Management’s Discussion and Analysis and Plan of Operation” and Part I, Item 3 “Controls and Procedures.” Except for these items, no other information in the Original Quarterly Report is amended hereby.

Verdisys, Inc.

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VERDISYS, INC.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

VERDISYS, INC.
BALANCE SHEET
(Unaudited)
March 31, 2005

Assets		
		(Restated)
Current Assets:		
Cash	$	169,856
Accounts receivable, net of allowance for doubtful accounts of $17,001		136,102
Lease receivable		50,000
Receivable from related party		375,000
License receivable		900,000
Other current assets		75,381
Total Current Assets		1,706,339
Equipment, net of accumulated depreciation of $103,174		531,570
Total Assets	$	2,237,909
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$	661,096
Accrued expenses		1,210,075
Deferred revenue		270,710
Customer deposits		101,850
Notes payable - related parties, net of unamortized discount of $2,521		107,479
Notes payable - other, net of unamortized discount of $53,643		421,357
Total Current Liabilities		2,772,567
Long Term Liabilities:		
Notes payable - related parties, net of unamortized discount of $41,792		158,208
Deferred revenue, less current portion		48,543
Total Liabilities		2,979,318
Commitments & Contingencies		
Stockholders' Equity:		
Common Stock, $.001 par value, 50,000,000 shares authorized; 36,051,830 shares issued and outstanding		36,052
Additional paid-in capital		27,419,393
Accumulated deficit		(28,196,854)
Total Stockholders' Equity		(741,409)

Total Liabilities and Stockholders’ Equity	$	2,237,909

See accompanying notes to condensed financial statements.

VERDISYS, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	For The Three Months Ended March 31, 2005 (Restated)	For The Three Months Ended March 31, 2004
Revenue:		
Satellite Services	$ 272,802	$ 91,750
Drilling Services	14,981	114,158
Total Revenue	287,783	205,908
Cost of Services Provided:		
Satellite Services	173,803	164,078
Drilling Services	119,484	255,262
Total Cost of Services Provided	293,287	419,340
Gross Deficit	(5,504)	(213,432)
Operating Expenses:		
Selling, general and administrative	1,034,627	2,031,079
Depreciation and amortization	29,810	129,823
Bad debts	10,000	—
Operating Loss	(1,079,941)	(2,374,334)
Other (Income) Expense:		
Interest expense	51,261	33,569
Other income	(971)	(88,631)
Interest income	(4)	(9)
Total other (income) expense	50,286	(55,071)
Net Loss	$ (1,130,227)	$ (2,319,263)
Basic and diluted net loss per share	$ (0.03)	$ (0.08)
Weighted average shares outstanding	34,404,860	30,259,880

See accompanying notes to condensed financial statements.

VERDISYS, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended March 31, 2005 (Restated)	For the Three Months Ended March 31, 2004
Cash Flows From Operating Activities:		
Net loss	$ (1,130,227)	$ (2,319,263)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock issued for services or litigation	962,395	735,192
Option and warrant expense	25,000	80,099
Amortization of note discount	34,488	—
Depreciation and amortization	29,810	129,823
Loss on sale of property	(971)	—
Bad debts	10,000	—
Change in working capital items	(19,306)	342,690
Net Cash Used In Operating Activities	(88,811)	(1,031,459)
Cash Flows From Investing Activities:		
Construction of equipment	(250,000)	—
Net Cash Provided By Investing Activities	(250,000)	—
Cash Flows From Financing Activities:		
Proceeds from sale of stock	241,500	—
Proceeds from exercise of options and warrants	250	40,993
Proceeds from notes payable to stockholders	—	50,000
Payments on note payable related to license	—	(100,000)
Net Cash Provided By (Used In) Financing Activities	241,750	(9,007)
Net change in cash	(97,061)	(1,040,466)
Cash at beginning of period	266,917	1,373,627
Cash at end of period	$ 169,856	$ 333,161
Non-Cash Transactions:		
Conversion of liabilities to common stock	$ 192,737	$ —
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	$ —	$ 1,920,000

See accompanying notes to condensed financial statements.

VERDISYS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited interim financial statements of Verdisys, Inc. (“Verdisys”) 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 Verdisys’ 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.

NOTE 2 - GOING CONCERN

As shown in the accompanying financial statements, Verdisys incurred a net loss of $1.1 million for the three months ended March 31, 2005, has an accumulated deficit of $28.2 million and a working capital deficit of $1.1 million as of March 31, 2005. These conditions create an uncertainty as to Verdisys’ 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 Verdisys is unable to continue as a going concern.

NOTE 3 - STOCK OPTIONS AND WARRANTS

Verdisys 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 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. Verdisys 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 first quarter of 2005, Verdisys 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 totaled $54,231.

In the first quarter of 2004, Verdisys granted 310,000 ten year options to officers and non-employee directors with exercise prices at the then market price of $4.28. The options to officers vest monthly over 12 months and the options to non-employee directors vest immediately. There was no intrinsic value associated with the grants, however, fair value totaled $1,200,623.

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VERDISYS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

The following table illustrates the effect on net loss and net loss per share if Verdisys had applied the fair value provisions of SFAS No. 123 to stock-based employee compensation.

		2005		2004
Net loss as reported	$	(1,130,227)	$	(2,319,263)
Less: stock based compensation determined under fair value based method		(81,569)		(532,535)
Pro forma net loss	$	(1,211,796)	$	(2,851,798)
Basic and diluted net loss per common share:				
As reported	$	(.03)	$	(.08)
Pro forma	$	(.04)	$	(.09)

The weighted average fair value of the stock options granted during 2005 and 2004 was $.42 and $4.28, respectively. Variables used in the Black-Scholes option-pricing model include (1) 2.0% risk-free interest rate, (2) expected option life is the actual remaining life of the options as of each year end, (3) expected volatility is 153% and 102%, respectively, and (4) zero expected dividends.

NOTE 4 - RECEIVABLE FROM RELATED PARTY

The receivable from related party is due from Energy 2000 NGC, Inc. (“Energy 2000”). In October 2004, Verdisys entered into an agreement with Berg McAfee Companies, Energy 2000 and Eric McAfee to settle several outstanding legal issues. At that time, Energy 2000 agreed to settle a finders fee and lateral drilling services dispute by delivering 300,000 shares of Natural Gas Systems, Inc. (“NGS”) stock into escrow for Verdisys. Due to uncertainties on the liquidity of the shares, Verdisys assigned no value to them as of December 31, 2004. On April 4, 2005, Verdisys received $375,000 from Energy 2000 and the NGS shares were released back to Energy 2000.

NOTE 5 - EQUIPMENT & LATERAL DRILLING LICENSE

On March 8, 2005, Verdisys entered in an Assignment of License Agreement with Maxim TEP, Inc. (“Maxim”). The President and CEO of Maxim is Dan Williams, a former President and CEO of Verdisys. Verdisys and Carl Landers entered into a license agreement on April 23, 2003 for the exclusive use of the Landers horizontal drilling process. Under the Assignment, Verdisys assigned to Maxim its rights in the license; all current and future negotiations for assignments, sublicenses or territorial royalty pertaining to the license. As consideration, Maxim agreed to pay Verdisys a total of $1.3 million over four installments: $300,000 on March 9, 2005; $100,000 on March 18, 2005; $500,000 on June 3, 2005 and $400,000 on September 2, 2005. Verdisys has received the two installments due in March of 2005 and as subsequent installments are received, the carrying value of the license will be reduced. Verdisys retains a non-exclusive sublicense provided Verdisys pays all required royalties on which the Landers horizontal technology is utilized.

In connection with the Assignment, Verdisys sold two of its three drilling rigs for the release of a customer deposit obligation that Verdisys owed Maxim. Maxim took delivery of the first rig during the quarter and the second rig will be delivered in the second quarter of 2005. The gain on the sale of the first rig of $41,890 has been deferred as Verdisys will recognize a loss on the second rig and the rigs were sold as a package. Verdisys will continue to depreciate the second rig until its delivery to Maxim.

VERDISYS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

NOTE 6 - ACCRUED EXPENSES

Accrued expenses at March 31, 2005 consisted of the following:

Description		Amount
Gryphon stock registration delay penalty	$	500,000
Accrued payroll		459,259
Litigation settlement		55,000
Director fees		44,750
Interest		59,634
Other		91,432
	$	1,210,075

NOTE 7 - DEFERRED REVENUE

Verdisys bills some of its satellite bandwidth contracts in advance over periods ranging from 3 months to 36 months. Verdisys recognizes revenue evenly over the contract. Deferred revenue related to satellite services totaled $273,355, of which $224,812 will be recognized in the next twelve months.

Deferred revenue also includes unearned income of $4,008 related to the equipment financing lease receivable and $41,890 from the sale of a rig (See Note 5).

NOTE 8 - COMMITMENT

Verdisys entered into an Abrasive Fluid Jet Rig (“AFJ”) Construction Agreement with Alberta Energy Holdings Inc. (“Alberta”) in which Alberta will engineer, design, source and build the Verdisys AFJ Coiled Tubing Rig System for a lump-sum price of $850,000. Under the agreement the first $100,000 of budget overruns will be borne by Alberta, with additional overruns being the responsibility of Verdisys. As of March 31, 2005, Verdisys had expended $250,000 under the agreement. Verdisys anticipates the total cost of the rig under construction to approximate $1.1 million.

NOTE 9 - STOCKHOLDERS EQUITY

In March 2005, Verdisys, Inc. entered into an agreement, subject to court approval, to settle the class action lawsuit brought by former shareholders in March 2004 in the U.S. District Court for the Southern District. Under the terms of the agreement, Verdisys would issue to the class 1,150,000 shares of common stock valued at $448,500 and pay up to $55,000 in legal and administrative fees for the plaintiffs.

In February 2005, Verdisys sold 83,333 shares of common stock at a price of $0.30 per share in continuation of a dispute settlement with a former consultant.

In January and February 2005, Verdisys issued 433,000 shares of common stock for $216,500 in a private placement for $0.50 per share. Two year warrants to purchase 433,000 common shares at $1.00 per share were attached to the common stock. Offering costs consisted of 15,800 shares of common stock and warrants to purchase 15,800 shares of common stock at $1.00 per share.

Effective January 19, 2005, Verdisys, Edge Capital Group, Inc. ("Edge"), certain entities affiliated with Edge and Eric McAfee entered into a settlement agreement and mutual release to fully settle and resolve the disputes between them. As part of the settlement, Verdisys issued an aggregate of 750,000 shares of common stock along with warrants to purchase 750,000 shares of common stock to Edge. 250,000 shares were issued during October 2004 and the remaining 500,000 shares were issued in 2005 and were valued at $240,000.

In January 2005, Verdisys issued 16,000 shares of common stock for the payment of leasing fees valued at approximately $8,000. In a