BLAST ENERGY SERVICES, INC.
Form 10KSB/A
June 05, 2006

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

Form 10-KSB/A

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **December 31, 2005**

TRANSITIONAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____to _____

Commission file number: 333-64122

Blast Energy Services, Inc.
(Name of small business issuer in its charter)

California	**22-3755993**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

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

(281) 453-2888
(Telephone number)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: None

Check whether 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-KSB or any amendments to this Form 10-KSB.

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

Issuer’s revenues for the most recent fiscal year: $1,159,458

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold on February 28, 2006 is $33,569,923.

The number of shares outstanding of each of the issuer’s classes of common equity, as of December 31, 2005:

Common Stock: 42,060,477 shares

No (1) annual report to security holders; (2) proxy or information statement; or (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933; are incorporated by reference into any part of this Form 10-KSB. Transitional Small Business Disclosure Format: Yes No

Explanatory Note

Blast Energy Services, Inc. is filing this amended Annual Report on Form 10-KSB/A for the period ended December 31, 2005 (the "Amended Annual Report"), to amend its Report on Form 10-KSB for the period ended December 31, 2005 (the "Original Annual Report"), which was filed with the Securities and Exchange Commission on March 31, 2006.

The Amended Annual Report amends the Company's financial statements to reflect the proper classification of the cash received from the sale of the Landers license, revisions to the language describing notes payable, warrants issued in 2005 and subsequent events, including the associated footnotes to the financial statements and disclosures under Part I, Item 1 "Financial Statements," I, and Part II, Item 8a "Controls and Procedures." Except for these items no other information in the original Report is amended hereby.

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Item 1. Description of Business

Forward-Looking Statements
Certain statements concerning our plans and intentions included herein may constitute forward-looking statements, including, but not limited to, statements identified by the words “anticipate”, “believe”, “expect” and similar expressions and statements regarding our business strategy, plans, beliefs and objectives for future operations. Although management believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. There are a number of factors that may affect our future results, including, but not limited to, (a) our ability to obtain additional funding for development and operations, (b) the continued availability of management to execute the business plan, (c) successful deployment and market acceptance of our products, and (d) the resolution of legal matters that may inhibit the execution of the business plan.

This annual report may contain both historical facts and forward-looking statements. Any forward-looking statements involve risks and uncertainties. Moreover, future revenue and margin trends cannot be reliably predicted.

Business Development
In September 2000 we were incorporated as Rocker & Spike Entertainment, Inc, a California corporation. Until December 31, 2000, operations consisted of organizational matters and the search for an operating company with which to perform a merger or acquisition. Effective January 1, 2001, we purchased the assets and web domain of Accident Reconstruction Communications Network from its sole proprietor. Following the acquisition, we changed our name from Rocker & Spike Entertainment, Inc. to Reconstruction Data Group, Inc. At that time, we provided research, communication and marketing exposure to the accident reconstruction industry through our website and seminars.

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. They changed their 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, they changed their market focus to concentrate on services to the oil and natural gas (“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. (“Blast” or “Blast Energy”) 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.

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

We expect our primary segment will be our down-hole energy services 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. In 2003, with the acquisition of exclusive rights to a proprietary Landers horizontal drilling process we began to deploy this non-abrasive, lateral drilling service in the field. During 2004, it became apparent that this process was limited and was not able to succeed in a wide variety of oil and gas formations. After redesigning and improving the existing process and designing and testing some newer technologies, including abrasive fluid jetting, 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 believe we have now made this new service more reliably predictable and consistently dependable for our customers than our old technology. We have recently delivered our first new generation lateral drilling rig with the AFJ capability 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. During this period of development and construction in late 2004 and all of 2005, we have conducted no drilling operations. If accepted by the market, the capabilities of this new generation AFJ rig will allow us to expand to a wider range of well services, including specialty casing cutting, long reach and large bore perforating, lateral jetting and specialty completions. Should we achieve favorable results for our customers with this initial rig’s capabilities, we intend to order the construction of up to three additional rigs in 2006 and significantly grow the deployment of our abrasive jetting service.

Our secondary 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.

Industry

We operate in the energy services industry which services the broader energy industry, where companies explore, develop, produce, transport, and market oil and gas. This industry is comprised of a diversity of operators, ranging from the very small to the extremely large. While the major portion of oil and gas production is provided by very large international oil companies, there are also a large number of smaller independent companies who own the vast majority of existing wells.

As a smaller firm with a specialized service, we intend to provide down-hole solutions and satellite communication services to both small and large operators in the energy industry. Initially, the down-hole business will be focused toward North American onshore-based independent producers while the satellite business already has several of the large oil and gas operators as customers. As we grow, we intend to cater to all segments of the industry in situations where the application of our services can add value to our customers.

Demand for our services depends on our ability to demonstrate improved economics, primarily to the oil and gas production sector we serve. We believe that they will use our abrasive jetting service where it costs less than alternative services and/or when they perceive it enhances production. It will also be driven by macro-economic factors driving oil and gas fundamentals. The report of the Energy Information Administration of the U.S. Department of Energy entitled “International Energy Outlook 2006” forecasts that world oil consumption will increase at an average annual rate of approximately 1.1% from 2004 to 2030 and that world natural gas consumption will increase at an average annual rate of approximately 0.7% over the same period. The projected increase in demand for oil is based on growth in the transportation and industry sectors in particular, and primarily in Asian emerging economies, such as China and India, as well as North America. The projected increase in gas consumption over this period is expected to result from higher demand across the electrical power, industrial and commercial sectors, as well as from the increasing use of gas as a source of fuel for electric power generation, particularly in North and South America, as well as other regions. We also believe that reliance on traditional sources of oil and gas will be limited due to the inadequate delivery infrastructure and political unrest in major supplying countries.

There are 1,337 trillion cubic feet (“Tcf “) of recoverable gas resources in the U.S. - enough to last decades - but some of it is off-limits to recover because of restrictive environmental rules and lawsuits. This is particularly the case with drilling moratoriums on the East and West Coasts of America, parts of the Rocky Mountain Area and Alaska. On its website, www.naturalgasfacts.org, the American Petroleum Institute advocates “A multi-pronged approach is essential for meeting future U.S. gas demand: (1) wiser energy use and conservation, where possible; (2) development of more U.S. supplies - both offshore and in the Mountain West; (3) construction of pipelines to bring Arctic gas to consumers; and (4) tapping into global markets through liquefied natural gas from a diverse array of suppliers.” We believe a more immediate impact can be made by exploiting existing U.S. supplies. Developing such supplies is dependent on drilling new wells in existing fields, or new reserves in expensive less accessible fields. We believe our lateral drilling technology can access previously uneconomic reserves and bring them to market cost effectively thereby helping to resolve this supply/demand imbalance.

The Office of Fossil Energy, U.S. Department of Energy, estimates there are over 400,000 oil wells and 260,000 gas wells that are marginal or classified as “stripper” wells in the United States. These stripper wells produce 10 to 15 barrels or less of oil a day or 60 thousand cubic feet of gas or less a day. According to the Office of Fossil Energy “together (stripper wells) account for over 1.4 Tcf of gas, or about 7% of the natural gas produced in the lower 48

states." Such wells are potentially considered uneconomic or marginal with the strong potential of being abandoned due to poor production economics. Indeed approximately 142,000 marginal wells were abandoned between 1994 and 2003 "costing the U.S. more than $3.0 billion in lost oil revenue" according to the Office of Fossil Energy. In seeking to revitalize marginal and stripper wells both the Department of Energy and American Petroleum Institute have emphasized the need for new technologies to access more of the reserves available. We believe we have the ability to generate new business by re-entering existing wells rather than being dependent on the production companies drilling new wells. With our unique abrasive jetting drilling technology, we believe we can provide potentially improved recovery rates rather than abandoning a field because of the depletion of its oil or gas reserves.

We believe that producing companies will react to the combination of the increased demand and the decreased supply of oil and gas in a manner that requires them to utilize both segments of our business. We believe that oil and gas producers have great economic incentive to recover additional production and reserves from known reservoirs rather than pursuing a more risky exploration approach. Our extraction methods may permit producers to add value by potentially recovering a significant additional percentage of the oil and gas from a reservoir. We believe that there exists a large potential market in North America that comprises logical candidates to apply our abrasive jetting stimulation methods.

Activity in the energy services industry tends to be cyclical with oil and gas prices. In addition to the currently positive industry fundamentals, we believe the following sector-specific trends enhance the growth potential of our business:

• While oil prices are unpredictable, they have remained and are projected to remain relatively high by historic terms for several years. Continuing high consumption and strong growth in Asian demand, limitations in delivery infrastructures and political unrest in major supplying countries are expected to be contributing factors.

• Gas prices are projected to remain high for several years due to the combination of strong demand and major supply constraints The situation is serious enough that Federal Reserve Bank Chairman Greenspan has expressed concern as to its effect as a constraint to US economic growth during his testimony before the Joint Economic Committee of Congress on May 21, 2003 and in updates since that time.

• There is no substitution threat to oil and gas in the foreseeable future. In particular, any significant substitution by hydrogen or any other potential source is believed by management to be some decades away.

Abrasive Jetting Services
Our AFJ service intends to provide casing milling, perforation, well stimulation and lateral drilling services to oil and gas producers. As a co-owner of the intellectual property with Alberta Energy Partners (“Alberta”) formerly known as Alberta Energy Holding, Inc., we also have exclusive worldwide licensing rights for the application of their patent pending Abrasive Fluid Jet (“AFJ”) cutting technique to cut through well casing and formation rock in oil and gas wells. AFJ is being added to, and will enhance the existing principles of lateral jetting and completion techniques utilized by us and the industry. 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 would be among the first to commercially apply the proven abrasive jetting techniques to the energy producing business.

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 is expected to be commercially deployed during April, 2006. 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.

Expanded Product Line
Our versatile AFJ product line offerings have been expanded greatly from the single oilfield service offered using the Landers technology. The product line now varies in scope and complexity from the provision of relatively simple services such as coil tubing pumping, tubing cleaning and cutting, window casing milling, and large bore perforations to the more technically challenging services of long reach lateral jetting, with or without well stimulation services, using materials such as propants to ensure integrity of the well bore and acid to stimulate release of hydrocarbons. Most of the services offered currently exist in the marketplace but our goal is to provide them more efficiently and effectively by adding the abrasive cutting capability. For example, the current industry standard for well perforation involves shooting multiple small holes into the well bore and out into the oil and gas formation 3 to 6 feet compared to our approach of blasting 2 to 4 inch diameter tunnels into the formation rock as far as 10 feet or more. Another example is casing milling, where conventional methods take far longer to mechanically cut windows into the casing than the abrasive cutting technique. Management believes that the industry will rapidly embrace such time and cost saving operations.

Our initial rig is configured to provide such services to a working depth of 8,000 feet. Given our current lack of experience in providing these new AFJ services, we are unsure which services will be better received by the market or which will be more profitable to the company. Consequently, 2006 will be a year of learning much more about these markets for us.

Due to our unique and environmentally sound process, we believe that our AFJ product line will offer the ability to access previously uneconomic reserves and bring them to market cost effectively. These services should have appeal for both small independent operators as well as larger energy companies. At our lower comparative costs, we believe we can make it feasible to enhance production from a large potential market in North America and worldwide that would otherwise be cost prohibitive to recover. The existing independent oil and gas producers in North America are leading potential customers of these services. The company’s strategy is to operate in North America as a service company and to accelerate worldwide growth by attempting to deploy the technology overseas via licensing of the technology to energy service companies in their geographic areas of greatest strength.

Lateral Jetting Services

Many of the nation's mature oil and gas fields contain new infield reservoir compartments and bypassed pockets of productive zones that have not previously been economic to produce. By extending 2 inch or greater diameter channels extended distances in multiple directions from the casing of the well, our lateral jetting service provides an potentially economic way to enhance production levels of existing reservoirs or by reaching new infield reservoirs or untapped reservoirs located near the existing vertical well. Our lateral drilling process uses a high pressure AFJ cutting technique, capable of drilling lateral holes from existing wells extended distances beyond the near well bore damage in wells at working depths as deep as 8,000 feet.

With conventional horizontal drilling, the transition from drilling vertically to horizontal drilling may take 200 feet or more and take many days to accomplish. With our patented technology, we can make this transition in two feet in an immediate fashion. This enables us to be extremely precise in targeting and staying within specific pay zones for a potentially significant enhancement to the production of the well.

We are developing abrasive jetting technology using specially designed deflection shoes, nozzles and hoses to drill 2 inch and larger diameter well bores into the producing formation in multiple directions around the well-bore. By increasing the surface drainage area opened to the producing reservoir, oil or gas production should be increased, which represents a potentially large value-added application in conventional drilling and completion operations. The figure below more precisely illustrates the process.

Our AFJ process is designed to work on both new and existing wells, but may have greater attraction to operators of marginal wells, whose production and basic economic performance could be greatly improved. The strong market potential arises from the realization that our service could negate the continual need for new drilling and denser infield drilling. Any fields that may be ready to be abandoned but have remaining resource potential can have their production re-established and their economic lives significantly extended if our abrasive jetting application is successful.

The figure below demonstrates how drilling multiple lateral wells from existing vertical well bores can drastically expand the production area within a given field. A typical vertical well will only recover petroleum from an area relatively near to the well bore. However, each lateral can extend in multiple directions from the well bore, thus potentially increasing the area of productive capacity several fold. With our lateral drilling process we have the ability to drill multiple laterals in different directions and at multiple depths within the same producing intervals in a matter of days. The average price for our service will range from $25,000 to $40,000 per well depending upon the size of the project. Specialized directional drilling companies typically charge $250,000 or more to drill horizontally in one direction and in only one horizon and may require weeks to drill each well.

Potential Benefits of our AFJ lateral jetting service:
• Increase production rate and recoverable reserves from marginal wells.
• Allows stimulation of wells with acid, steam, CO_2, etc.
• Allows multi-layer application in thicker reservoir zones.
• Provides an economic alternative to conventional infield drilling programs.
• Provides a time efficient and cost effective casing milling process.
• Offers an alternative to high cost well stimulation services such as hydraulic fracturing.
• Limits the time the well is out of production due to rapid jetting times.

Major Customers
We currently have one single active customer as we are in the commercial deployment mode. We have a letter of intent with Oracle Energy to conduct down-hole service testing on several wells located in their fields in Louisiana. Additionally, we have several other potential customers attending our yard and field demonstrations while on location in our contracted Fort Worth fabrication facility and in Sabine Parish, Louisiana with Oracle Energy.

Customer Acceptance
We are encouraged by the level of interest from prior and prospective customers in the abrasive jetting technology as it relates to conventional oil and gas production as well as coal bed methane opportunities.

Our abrasive jetting service directly competes with the need for new wells by laterally drilling from existing wells to extend the pay zone resulting in increased production through existing well bores. Our ability to target new or previously untapped deposits makes our technology potentially very compelling. By cost effectively extending the accessibility of reserves through the existing well bore, our technology can provide an alternative for a customer to add value to an existing field as compared to conventional well fracturing and stimulation techniques or infield drilling programs. The field operator's next best economic alternatives are all more expensive than our service. This has the potential to be not only compelling economically but also very environmentally friendly because it uses previously established well bores rather than building new surface locations to drill new wells.

According to the Department of Energy Report - Natural Gas Fundamentals from Resource to Market, June, 2003, there are "Over 7,000 small independent businesses (that) drill 85% of wells and produce 65% of gas in the U.S. from over 350,000 U.S. wells." These independent producers are potential customers for our abrasive jetting service. In the same report it estimates 10,000 to 15,000 new gas wells are drilled and completed each year costing anywhere from less than $100,000 to several million. These new wells are necessary just to replace depleted supplies from existing wells in an effort to maintain current U.S. production levels.

Recent changes in U.S. tax laws provide for incentives to keep smaller oil and gas wells pumping even at lower energy prices. Operators of the nation's 650,000 marginally producing wells, representing approximately 25% of total U.S. production, receive tax credits of up to $9 per well per day. We believe such credits will be reinvested by the operators toward services such as abrasive jetting in an effort to increase production and the value of their oil and gas fields.

Market

It has become clear in recent years that while the demand of oil and gas in the U.S. continues to grow, its ability to meet this demand from existing and new sources is rapidly declining. This accelerated decline will require producers to seek new extraction methods or technologies to exploit oil and gas production from existing fields and we anticipate that our abrasive jetting process will help satisfy the need for these new technologies. According to the Department of Energy, there have been 2.3 million wells drilled in the US since 1949. “Historically, only some 30% of the total oil in a reservoir - the “original oil-in-place” - was recoverable. As pressure declines in the reservoir, the oil becomes costlier and costlier to produce until further production becomes uneconomic…recent advances now allow greater recovery from old reservoirs.”

Emphasis on Gas

The U.S. consumed 22.3 Tcf of gas in 2004 - heating 57% of U.S. households and meeting 23% of the country’s energy requirements, according to the U.S. Energy Information Administration (EIA). In that same year, U.S. production of gas totaled 18.8 Tcf, which equates to 84% of the amount consumed. According to the EIA, this gap between demand and supply is estimated to grow over the next decade. Demand will grow because gas is a versatile, clean burning and, historically, an economic fuel. At the same time, the new domestic fields being found are smaller and have shorter productive lives. So, it is management’s belief that with legal and political barriers to drilling on new lands, producers will seek alternative to extend the lives from existing fields, utilizing new energy service technologies such as AFJ.

Competition

Our AFJ business is expected to operate in a niche that lies between the more expensive and higher impact conventional horizontal drilling business and the much cheaper and lower impact casing milling and perforation businesses. Our abrasive jetting service can provide significant reservoir exposure, and therefore greater production potential, similar to horizontal drilling at a cost closer to that of a perforation service.

Conventional horizontal or directional drilling is slow and significantly more expensive to the extent that it is only being used if its much longer drilling radius was required as is necessary in offshore or environmentally sensitive areas. Companies offering this service include Halliburton, Baker Hughes, Schlumberger and other independent service companies. They traditionally drill one lateral through the existing well bore. That lateral can take over 200 feet to achieve the turn to the horizontal and be limited to only one “pay” zone. It usually costs over $250,000 and positive financial returns require very high producing rates or high oil and gas prices.

However, many of our competitors are better financed, equipped and resourced than us.

Satellite Communications

Our second business segment provides satellite communication services to oil and gas producers. It has been common practice to manually gather much of the data for energy management, and communicate using satellite phone or cellular service where available. This is not only expensive but also causes a significant time lag in the availability of critical management information. The Blast Satellite Private Network (“BSPN”) services utilize two-way satellite broadband to provide oil and gas companies with a wide variety of remote energy management communications and applications. Satellite’s capability to provide secure broadband to any remote location in the world gives it unique capabilities over terrestrial and cellular networks. Technology advancements now facilitate not only data, email and internet traffic but also Voice over Internet (“VoiP”) and video streaming. Bandwidth traffic capabilities of base station have also increased significantly allowing larger and faster file and data transfer capabilities to compete with terrestrial systems. Satellites capability to operate off stationary and mobile remote dishes with no supporting infrastructure has proven invaluable in both disaster recovery and remote or continuously moving commercial operations.

Our satellite services can be optimized to provide cost effective applications such as VoIP, Virtual Private Networking "VPN" and Real-time Supervisory Control and Data Acquisition Systems, commonly referred to as SCADA. SCADA permits oil and gas companies to dispense with a manual structure and move to a real-time, automated, energy management program. Utilizing SCADA, a service we currently offer, production levels can be optimized to meet the producer's current market demands and commitments.

At present, we acquire modem hardware from ViaSat, iDirect Technologies and Spacenet and install this equipment on our customers' onshore and offshore platforms. Space segment services are acquired from SES and Loral and hub services from Constellation, Isotropic Networks, Viasat and Spacenet.

Blast uses satellite communications that are low cost and that ensure worldwide availability, even in geographic areas with a poor communications infrastructure. Our satellite services are based on industry standards to lower implementation costs and to simplify the integration into existing systems. Reliability and availability are critical considerations for SCADA. Satellite services are provided 24 hours a day, 7 days a week with 99.9% availability virtually anywhere in the world. There are fewer points of failure than comparable terrestrial services. They provide uniform service levels, are faster and more cost effective to deploy. Our satellite services are also very flexible and easily accommodate site additions, relocations, bandwidth expansion, and network reconfiguration.

Additionally, security, integrity, and reliability have been designed into our satellite services to ensure that information is neither corrupted nor compromised. Satellite communications are more secure than many normal telephone lines.

Major Customers

Our current satellite services customers include Apache Corporation, BP America Production Company, and Noble Energy with 22 remote sites, representing 16%, 23% and 16%, respectively, of our satellite revenues through December 31, 2006. We are also providing satellite services in West Africa to ExxonMobil, Kellogg Brown & Root Inc. and General Electric Power Company. Contracts are usually for hardware, backhaul, and bandwidth. Virtually any oil and gas producer, of which there are thousands, is a potential customer for our satellite services.

Market

There are more than two million oil and gas wells in existence in the U.S. alone, many of which are located in remote or rural areas where communications and monitoring well status can be difficult and expensive. Such well locations could benefit from the economics of our real-time, high speed satellite connectivity services as compared to more conventional monitoring alternatives, such as, the time consuming and costly transportation of personnel to remote well locations, or the equipment and maintenance costs of laying land lines for real-time monitoring of remote well operations. Our focus is serving the needs of oil and gas producers worldwide to control their production effectively and to enhance customer satisfaction by providing worldwide real-time access to information. This market for satellite services is very competitive with increasing pressure on margins our larger competitors offer services at substantially discounted prices. We attempt to compete against such competitors by attempting to target niche markets and offering alternative solutions that solve customers' complex communication problems at more cost effective rates. We utilize satellite, Wi-Fi and other wireless technology for the last mile of wellhead connectivity for these customers and focus almost exclusively on the oil and gas market. The common denominator throughout is Multiple Protocol Label Switching "MPLS/ATM" network transport services.

Competition

The satellite communication industry is intensely competitive due to overcapacity, but the competition is less severe in the oil and gas producing sector. Other satellite services providers in the oil and gas industry include Petrocom, Stratus Global, Tachyon, Schlumberger and Caprock. Caprock, Schlumberger and Stratus are focused on the top 20% of the market, particularly international and offshore platforms, and Petrocom and Stratus Global are focused on the offshore market using a traditional wireless network. Our satellite services offer advantages over those services by:

- Customizing the provided service to better meet the customer's needs;
- Offering superior speed;
- Providing single vendor convenience; and
- Offering lower up-front infrastructure and operating costs.

Insurance

Our operations are subject to hazards inherent in the oil and gas industry, such as accidents, blowouts, explosions, implosions, fires and oil spills. These conditions can cause:

a) personal injury or loss of life
b) damage to or destruction of property, equipment and the environment
c) 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 maintain insurance coverage that we believe to be customary in the industry against these types of 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 some policies exclude coverage for damages resulting from environmental contamination. The occurrence of a significant event or adverse claim in excess of the insurance coverage that we maintain or that is not covered by insurance could have a materially adverse effect on our financial condition and results of operations.

Patents and Licenses

Effective August 25, 2005, Blast entered into a definitive agreement to purchase from Alberta an interest in the AFJ technology that enables Blast the unrestricted right to use the technology and license the technology worldwide to others. Blast expects to utilize the technology as the foundation for its energy services business. Blast has acquired a 20% interest in the technology that can increase to up to a 50% interest as described below. The agreement supersedes the previously existing licensing agreement between the parties.

As part of the agreement, Blast has agreed to issue to Alberta 3,000,000 shares of restricted common stock, with registration rights, and warrants to purchase 750,000 shares of Blast common stock at an exercise price of $0.45 per share. The warrants have a three-year term and are exercisable when Blast receives $225,000 in revenue from its initial rig utilizing the technology. Blast has agreed to pay a royalty payment of $2,000 per well bore or 2% of the gross revenues received, whichever is greater. The parties also agreed to share any revenues received by Blast from licensing the technology, with Alberta receiving 75% of licensing revenues until it receives $2,000,000 and then decreasing to 50% thereafter. Blast's ownership interest in the technology would increase on a sliding scale from 20% up to 50% based on the licensing revenues received by Alberta. Either party has a right of first refusal on any new applications of the technology by the other party, or any sale of the other party's interest in the technology.

In March of 2006, Alberta accelerated the revenue sharing provisions of the Technology Purchase Agreement and assigned the full 50% ownership in the AFJ technology to Blast effective immediately. Blast had previously been

awarded only 20% of the ownership and the remaining 30% balance had been contingent upon the sharing of future revenues.

Blast and Alberta also agreed to amend the existing construction agreement between the parties. The amendment increased the construction cost of the rig by $50,000 to $900,000. Under the amendment, the parties agree to share cost overruns, if any, equally up to a rig cost of $1,000,000, with Blast assuming responsibility of any costs above that amount.

On April 24, 2003 we entered into an agreement to license the Landers Horizontal Drilling Process, based on U.S. Patent Nos. 5,413,184, 5,853,056, and 6,125,949 relating to certain oil and gas well production enhancement techniques and devices and related trade secrets with the inventor and holder of the patents and trade secrets, Carl Landers. The license gives us exclusive rights to apply the technology and the related trade secrets in all of the U.S. (except for part of Colorado West of the Rockies, and Utah) and Canada. Mr. Landers also reserves the rights to certain applications in which he has a direct interest but may not compete with us. Any improvements to the technology remain the sole property of the licensor but are provided to us without additional licensing fees. The license terminates upon the expiration of the underlying patents, the earliest date being October 1, 2013.

On March 8, 2005, we entered into an Assignment of License Agreement ("Assignment") with Maxim TEP ("Maxim"). The President and CEO of Maxim is Dan Williams, our former President and CEO. Under the assignment, we assigned to Maxim our rights in the license of the Landers Horizontal Drilling Process; all current and future negotiations for assignments, sublicenses or territorial royalty pertaining to the license and two lateral drilling rigs. As consideration, Maxim has paid $1,300,000 in principal payments and $500,000 in penalties for extending the payment deadlines and released a $270,000 credit obligation we owed to Maxim. We will retain a non-exclusive sublicense interest in the Landers Horizontal Technology provided we pay all required royalties in utilizing the technology.

The lateral jetting technology and related trade secrets are instrumental to our competitive edge in the oil and gas service industry. We are highly committed to protecting the technology. We cannot assure our investors that the scope of any protection we are able to secure for our license will be adequate to protect it, or that we will have the financial resources to engage in litigation against parties who may infringe on our exclusive license. We also can not provide our investors with any degree of assurance regarding the possible independent development by others of technology similar to that which we have licensed, thereby possibly diminishing our competitive edge.

Governmental Regulations

Once we begin commercial lateral drilling operations, we may be subject to various local, state and federal laws and regulations intended to protect the environment. Such laws may include among others:

- Comprehensive Environmental Response, Compensation and Liability Act;
- Oil Pollution Act of 1990;
- Oil Spill Prevention and Response Act;
- The Clean Air Act;
- The Federal Water Pollution Control Act; and
- Texas Railroad Commission Regulations.

These operations may involve the handling of non-hazardous oil-field wastes such as sediment, sand and water. Consequently, the environmental regulations applicable to our operations pertain to the storage, handling and disposal of oil-field wastes. State and federal laws make us responsible for the proper use and disposal of waste materials while we are conducting operations. We do not believe we are currently required under any environmental laws to obtain permits to conduct our lateral drilling operations as proposed. We believe we conduct our operations in compliance with all applicable environmental laws, however, there has been a trend toward more stringent regulation of oil and gas exploration and production in recent years and future modifications of the environmental laws could require us to obtain permits or could negatively impact our operations.

We depend on the demand for our products and services from oil and natural gas companies. This demand is affected by changing taxes, price controls and other laws relating to the oil and gas industry generally, including those specifically directed to oilfield operations. The adoption of laws curtailing exploration and development drilling for oil and natural gas in our areas of operation could also adversely affect our operations by limiting demand for our products and services. We cannot determine the extent to which our future operations and earnings may be affected by new legislation, new regulations or changes in existing legislation regulations or enforcement.

Our satellite services utilize products that are incorporated into wireless communications systems that must comply with various government regulations, including those of the Federal Communications Commission (FCC). In addition, we provide services to customers through the use of several satellite earth hub stations, which are licensed by the FCC. Regulatory changes, including changes in the allocation of available frequency spectrum and in the military standards and specifications that define the current satellite networking environment, could materially harm our business by (1) restricting development efforts by us and our customers, (2) making our current products less attractive or obsolete, or (3) increasing the opportunity for additional competition. Changes in, or our failure to comply with, applicable regulations could materially harm our business and impair the value of our common stock. In addition, the increasing demand for wireless communications has exerted pressure on regulatory bodies worldwide to adopt new standards for these products and services, generally following extensive investigation of and deliberation over competing technologies. The delays inherent in this government approval process have caused and may continue to cause our customers to cancel, postpone or reschedule their installation of communications systems. This, in turn, may have a material adverse effect on our sales of products to our customers.

Research and Development Activities
During 2005 and 2004, we incurred an insignificant amount of research and development costs as it relates to our abrasive jetting process. We incurred no research and development costs in our satellite business.

Employees
As of December 31, 2005, we had a total of seven full time employees. We also utilize independent contractors and consultants to assist us conducting the drilling operations, installing the satellite equipment, maintaining and supervising such services in order to complement our existing work force, as needed. Our agreements with these independent contractors and consultants are usually short-term. We are not a party to any collective bargaining agreement with any employees, and believe relations with our employees, independent contractors and consultants are good.

Item 2. Description of Property

Office Facilities
We lease approximately 3,000 square feet of office space in Houston, Texas for our principal executive office at a cost of $4,000 per month. Our lease expires in August of 2007.

Equipment
As of December 31, 2005, our primary equipment consisted of one new generation AFJ mobile drilling unit, which was under construction. The unit is expected to be deployed during April 2006. We also maintain certain satellite communication equipment, computer equipment, and furniture at our principal executive office.

On March 8, 2005, Blast assigned its rights in the license of the Landers Horizontal Drilling Process to Maxim along with all current and future assignments, sublicenses or territorial royalty pertaining to the license. In connection with the assignment, Blast sold two of its three drilling rigs for the release of a customer deposit obligation that we owed Maxim. Maxim has taken delivery of both rigs. The other rig was transferred to Edge Capital, as part of the settlement agreement. As a result, Blast no longer owns any of the older generation non-abrasive drilling rigs.

We believe that our facilities and equipment are in good operating condition and that they are adequate for their present use.

Item 3. Legal Proceedings

Securities and Exchange Commission Investigation
We received notice in January 2004 that the Securities and Exchange Commission has initiated a formal investigation into our reporting practices and our public statements 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.

Since December 2003, we have taken several steps to address issues related to the SEC’s inquiries, including the termination and replacement of the previous CEO and COO. Two directors have resigned from our board and we have appointed a new CFO. Internal controls have been strengthened overall, particularly with respect to the public release

of information and the recognition of revenue. We had also initiated an internal investigation of the matters of concern to the SEC. Consequently, we restated our second and third quarter financial statements from fiscal year 2003 to reverse all revenue related to the aforementioned period.

We are cooperating fully with the SEC, including the provision of numerous documents and voluntary testimony by our current executives. 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 there under 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. Although we are working to bring the matter to a prompt conclusion and have been engaged in settlement discussions with the SEC, we cannot make any assurance that the investigation will be resolved positively or that it will not have negative effects on our limited resources or our ability to raise capital and use its stock as acquisition currency during the period of the investigation.

Claims by Investor (Partially Settled)
In February 2005, Blast 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 Blast Energy's delay in registering common stock acquired by Gryphon in October 2003. Under the terms of the Agreed Judgment, Blast agreed to pay liquidated damages of $500,000 to Gryphon and has satisfied this obligation. In the portion of the lawsuit which was severed from the breach of contract and liquidated damages claims, filed in state court in Dallas County, Texas. Gryphon has also claimed against us that it has sustained actual damages in excess of $2.1 million. The suit alleges a claim, among other things, of 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. Gryphon has made a settlement demand on the Company for $2.1 million, which it purports to represent the actual damages it has sustained. We intend to vigorously defend ourselves in this matter with respect to the remaining claims of Gryphon. If Gryphon prevails on the remaining claims, it may obtain significant damages that may have a material adverse effect on our financial condition.

Concluding Statement
We have never been in bankruptcy, receivership or any similar legal proceeding. Other than described above, we are not aware of any other threatened legal proceedings. The foregoing is also true with respect to each officer, director and control shareholder as well as any entity owned by any officer, director and control shareholder, over the last five years. As part of its regular operations, we may become party to various pending or threatened claims, lawsuits and administrative proceedings seeking damages or other remedies concerning our commercial operations, products, employees and other matters. Although we can give no assurance about the outcome of these or any other pending legal and administrative proceedings and the effect such outcomes may have on the company, except as described above, we believe that any ultimate liability resulting from the outcome of such proceedings, to the extent not otherwise provided for or covered by insurance, will not have a material adverse effect on our financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise.

Part II

Item 5. Market for Common Equity and Related Stockholder Matters
The common stock of Blast Energy Services, formerly known as Verdisys, Inc., commenced trading on the OTC Bulletin Board on July 18, 2003 under the symbol "VDYS". Effective June 6, 2005, the symbol for our stock became "BESV". The following table sets forth, for the periods indicated, the high and low bid prices of a share of our common stock as reported on the OTC Bulletin Board since active trading began on May 2, 2003. The quotations provided are for the over the counter market which reflect interdealer prices without retail mark-up, mark-down or commissions, and may not represent actual transactions.

	HIGH	**LOW**
2004		
First Quarter	$ 9.54	$ 3.35
Second Quarter	$ 4.75	$ 1.50
Third Quarter	$ 1.95	$ 0.25
Fourth Quarter	$ 1.00	$ 0.40
2005		

First Quarter	$ 0.59	$ 0.35
Second Quarter	$ 0.52	$ 0.30
Third Quarter	$ 0.61	$ 0.31
Fourth Quarter	$ 1.08	$ 0.34

Holders

As of February 28, 2006, we had 42,954,507 shares of common stock issued and outstanding held by approximately 420 shareholders of record, including 1,150,000 shares approved for issue under the class action settlement.

Dividends

We have never paid cash dividends. At present, we do not anticipate paying any dividends on our common stock in the foreseeable future and intend to devote any earnings to the development of our business.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2005 regarding compensation plans (including individual compensation arrangements) under which equity securities are authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities available for future issuance under equity compensation plans (excluding securities shown in first column)
Equity compensation plans approved by shareholders			
Equity compensation plans not approved by shareholders	4,749,847	$1.27	3,250,153
Total	4,749,847	$1.27	3,250,153

Recent Sales of Unregistered Securities

The following table details shares issued under transactions that were a private offering we believe to be exempt from registration under Regulation D promulgated under Section 4(2) of the Securities Act. The sales of stock were to individuals or entities, each of whom was an accredited investor, as that term is defined in Rule 501 of Regulation D promulgated under Section 4(2) of the Securities Act and had adequate access to information pertaining to us. Furthermore, no advertisements were made and the securities are restricted pursuant to Rule 144.

December 2005	**Shares**	**Value**
Linden Capital Partners	900,000	$ 540,000

Offering Costs: A commission of $27,000 was earned by Chadbourn Securities
Other Terms: None

February 2005	**Shares**	**Value**
Nick Gorenc	13,000	$ 6,500
John & Cecelia Colgate	30,000	$ 15,000
Lakshmana Madala Defined Benefits Plan	20,000	$ 10,000
Flavio & Veronica Parigi	15,000	$ 7,500
Henry Rasmussen	10,000	$ 5,000
Nyla Rasmussen	20,000	$ 10,000
Steven E. Berglund	20,000	$ 10,000
Martin Hagenson	10,000	$ 5,000
Michael J. Paveloff	20,000	$ 10,000
Total	158,000	$ 79,000

Offering Costs: 15,800 shares of common stock and warrants to purchase 15,800 shares of our common stock at $1.00 per share were issued as a finders fee to Prima Capital Group.
Other Terms: Two year warrants to purchase 433,000 shares of our common stock at a price of $1.00 per share were issued in connection with the private placement. The proceeds will be allocated between the common stock and the

warrants based on their respective relative fair values.

January 2005	**Shares**	**Value**
Michael Peterson	100,000	$ 50,000
George Andros	100,000	$ 50,000
Osvaldo Diaz-Christians, Jr.	25,000	12,500
Jack St. Arnold	50,000	$ 25,000
Total	275,000	$ 137,500

Offering Costs: None

Other Terms: Two year warrants to purchase 433,000 shares of our common stock at a price of $1.00 per share were issued in connection with the private placement. The proceeds will be allocated between the common stock and the warrants based on their respective relative fair values.

May - June 2004	Shares	Value
Venkata Kollipara	62,500	$ 125,000
D.L. Dunbar, Trustee & Ruth Anne Dunbar, Trustee	5,000	$ 10,000
George C. Koutures	14,000	$ 28,000
John Burke Trustee	12,500	$ 25,000
Robert E. & Rosalie T. Dettle Living Trust	12,500	$ 25,000
Joseph W. Brown	13,000	$ 26,000
James & Bernice Campbell	12,500	$ 25,000
Edwards Family Trust	12,500	$ 25,000
Prima Capital Group	35,000	$ 70,000
Total	179,500	$ 137,500

Offering Costs: 17,950 shares of common stock and warrants to purchase 7,180 shares of our common stock at $2.00 per share were issued as a finders fee to Prima Capital Group.
Other Terms: Two year warrants to purchase 71,800 shares of our common stock at a price of $2.00 per share were issued in connection with the private placement. The proceeds were allocated between the common stock and the warrants based on their respective relative fair values.

July - August 2003	Shares	Value
Elizabeth A. Reed	12,500	$ 25,000
Peter A. Massaniso	40,000	$ 80,000
Ponte Vedra Partners	60,000	$ 120,000
Nick Gorenc	37,000	$ 74,000
Ernest Telford	25,000	$ 50,000
Venkata Kollipara	12,500	$ 25,000
George Shirahama Maggay	12,500	$ 25,000
Gregg Mullery	12,500	$ 25,000
David Newton	10,000	$ 10,000
Vivanis Kaplanis	8,000	$ 16,000
Mahi-Niki Loumidis	7,500	$ 15,000
Louis Lyras	7,000	$ 14,000
Elizabeth A. Reed	6,250	$ 12,500
Michael A. Frangopolous	7,000	$ 14,000
Jerome Dreyfuss	6,250	$ 12,500
Howard Kaplan	5,000	$ 10,000
Peter Skafte	5,000	$ 10,000
R.V. Edwards, Jr.	2,500	$ 5,000
Navid Eskandari	6,250	$ 12,500
David Eskandari	6,250	$ 12,500
Total	609,000	$ 1,218,000

Offering Costs: 59,400 shares of common stock and warrants to purchase 9,501 shares of our common stock at $2.00 per share were issued as a finders fee to Prima Capital Group.
Other Terms: None

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The following table details sales of stock we believe to be exempt from registration under Section 4(2) of the Securities Act. Each of the recipients of our stock was an accredited investor, as that term is defined in Rule 501 of Regulation D promulgated under Section 4(2) of the Securities Act and had access to information concerning us and our business prospects. Furthermore, no advertisements were made and the securities are restricted pursuant to Rule 144.

Date	Number of Shares of Common Stock	Value	Comment
Fourth Quarter of 2005	30,000	$ 11,100	Shares issued to Clayton & McEvoy P.C. for legal services.
Third Quarter of 2005	35,000	$ 14,000	Shares issued to BlausenLisi for design services.
	60,000	$ 24,500	Shares issued to Prima Capital for investor relations services.
Second Quarter of 2005	63,000	$ 22,050	Shares issued to Jeffrey MacKay in payment of legal fees for SEC filing
	20,000	$ 10,000	Shares issued to Clayton McEvoy P.C. for legal services
First Quarter of 2005	83,333	$ 25,000	Shares issued to settle a dispute with Mr. Pimentel, a former consultant.
First Quarter of 2004	60,000	$ 30,000	Shares issued to Jeffery MacKay in payment of legal fees for SEC filing.
	44,000	$ 22,000	Shares issued to the Strickland Group for engineering consulting services
	250,000	$ 75,000	Shares issued to settle a dispute with Mr. John Pimentel, a former consultant
	400,000	$ 200,000	Shares to Berg McAfee Companies for cash
Third Quarter of 2004	30,000	$ 15,000	Shares issued to Amerifund Capital Group in payment of a future fundraising effort
	300,000	$ 213,000	Shares issued in lawsuit settlement with Scooter's Convenience, Inc.
First Quarter of 2004	300,000	$ 1,920,000	Shares issued in payment of outstanding obligations to Mr. Landers for technology fees.

Third Quarter 2003	500,000	$ 2,275,000	Shares issued to Mr. Landers in exchange for amendment to Landers licensing agreement
	125,000	$ 250,000	Shares issued in payment of note payable to Mr. Landers.

Other Sales

In August 2005, Blast entered into a definitive agreement to purchase from Alberta an interest in the abrasive fluid jetting technology. Blast issued to Alberta 3,000,000 shares of restricted common stock valued at $1,170,000, with registration rights, and warrants to purchase 750,000 shares of Blast common stock at an exercise price of $0.45 per share. The warrants have a three-year term and are exercisable when Blast receives $225,000 in revenue from its initial rig utilizing the technology.

In June 2005, Blast issued 592,000 shares of common stock to a group of lenders composed principally of management and directors for the payment of $ 199,800 in notes payable and accrued interest that matured on May 15, 2005.

In March 2005, the Board of Directors awarded to certain employees and officers a total of 560,000 shares of company stock as a bonus payment in lieu of cash for 2004 performance. These shares were issued in September 2005 with a value of $196,000.

In early 2005, we issued 403,340 shares of our common stock under a program to compensate our directors, employees, contractors and former employees for $201,670 of unpaid wages, commissions and director fees incurred in 2004.

In January 2005, we issued 16,000 shares of our common stock for the payment of leasing fees valued at approximately $8,000 and 10,666 shares of our common stock with a value of $4,626 to settle unpaid compensation with two former AgZone employees. Additionally, 500,000 shares of common stock with a value of $215,000 were issued to Edge under the final terms of the lawsuit settlement agreement.

In October 2004, we issued 750,000 shares of our common stock valued at $240,000 in a move to settle outstanding litigation matters. In a Settlement Agreement and Mutual Release ("Agreement") between Edge, Eric McAfee and us, the parties would release each other from any claims upon the completion of the terms of the Agreement. As a part of this Agreement, 250,000 shares of our common stock were placed in escrow for the benefit of Edge. In October 2004, we entered into an agreement with Berg McAfee Companies, Energy 2000 and Eric McAfee (collectively, "McAfee Group") to settle several outstanding legal issues. Under this agreement, 500,000 shares of our common stock were placed in escrow for the benefit of the McAfee Group. In return, the McAfee Group contributed 875,000 shares of NGS. Further detail on these agreements can be found in the "litigation" section of this Form 10-KSB. The shares of stock were issued in transactions we believe to be exempt from registration under Section 4(2) of the Securities Act. The recipient of our stock was an accredited investor as defined in Rule 501 of Regulation D promulgated under Section 4(2) of the Securities Act and had access to information concerning us and our business prospects.

Furthermore, no advertisements were made and the securities are restricted pursuant to Rule 144.

Common Stock Issued Upon Exercise of Options

Date	Shares Issued Upon Exercise	Value	Comment
Second Quarter of 2004	344,583	$ 34,458	
First Quarter of 2004	25,000	$ 2,500	
Fourth Quarter of 2003	100,000	$ 10,000	
Second Quarter of 2003	2,409,291	$ 240,929	In lieu of cash, we agreed to expense the exercise price.

Common Stock Issued Upon Exercise of Warrants

Date	Shares Issued Upon Exercise	Value	Comment
Third Quarter of 2005	50,000	$ 50	
First Quarter of 2005	25,000	$ 250	
Second Quarter of 2004	57,658	$ 5,766	
	779,597	$ 38,494	

First Quarter of 2004			Includes cashless exercise of 400,000 warrants for 395,022 shares of common stock.
Fourth Quarter of 2003	245,631	$ 29,564	