

UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

SECURITIES AND EXCHANGE COMMISSION,	:	
	:	
Plaintiff,	:	C.A. No. ___ - ____
	:	
v.	:	
	:	
ERIC A. McAFEE,	:	
	:	
Defendant.	:	
	:	

COMPLAINT

Plaintiff Securities and Exchange Commission alleges as follows:

SUMMARY

1. During 2003, Defendant Eric A. McAfee (“McAfee” or the “Defendant”) aided and abetted a Houston-based company, Verdisys, Inc. (“Verdisys” or “the Company”) (now known as Blast Energy Services, Inc.) in making inaccurate disclosures regarding its revenues and expenses in reports filed with the Securities and Exchange Commission.

JURISDICTION AND VENUE

2. This Court has jurisdiction over this action, and venue is proper, pursuant to Sections 21(d)(3) and 27 of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§ 78u(d)(3) and 78aa].

3. McAfee, directly or indirectly, made use of the means or instruments of transportation and communication, and the means or instrumentalities of interstate commerce, or of the mails, in connection with the acts and practices alleged herein. Certain of the acts and practices alleged herein took place in the Southern District of Texas.

DEFENDANT

4. Eric A. McAfee, 42, of Saratoga, California, was Verdisys' CEO for five months from November 2002 to March 2003 (before it became publicly held in mid-2003), and a Verdisys director from late 2000 until his resignation in March 2004. McAfee was and remains Verdisys' largest shareholder, owning approximately 28% of Verdisys' outstanding common stock, 2.8% directly and 25.6% beneficially through two venture capital firms and through family holdings.

RELEVANT ENTITY

5. Verdisys, a California corporation with corporate headquarters in Houston, Texas, is primarily engaged in reworking existing oil and gas wells to renew or enhance production. Verdisys also provides broadband satellite links for the remote control of oil and gas wells and related infrastructure. Verdisys filed periodic and other reports with the SEC pursuant to Section 15(d) of the Exchange Act, and at all times relevant herein, its common stock (or the stock of a corporate predecessor) was quoted on the NASD's OTC BB.¹

FACTS

6. On September 24, 2003, Verdisys filed a Form 8-K with the Commission that included financial statements. A footnote to the financial statements advised that in April 2003, Verdisys issued two million shares of common stock, valued at \$1 million, ostensibly to acquire software, but that the software had been deemed useless, and Verdisys was therefore recording an impairment expense of \$1 million.

¹ References herein to Verdisys (the corporate name at the time of the violations discussed herein) shall mean and include Verdisys' predecessors and successors, including the privately-held corporate predecessor named Verdisys, Inc., and Reconstruction Data Group, Inc., a California corporation that had ceased business operations but which was still quoted on the OTC BB on May 2, 2003, when its pending reverse merger with the privately-held Verdisys was announced. The merger became effective July 18, 2003, at which time shares in the privately-held corporation were exchanged for shares in Reconstruction Data, Inc., which was renamed Verdisys. In June 2005, Verdisys changed its name to Blast Energy Services, Inc.

7. McAfee had convinced the Verdisys board to purchase the software by claiming it would allow the remote monitoring of oil and gas wells, which would complement Verdisys' sales of broadband satellite links to oil and gas companies. McAfee controlled the company selling the software, and he knew that the software only screened job applications and resumes of health care executives and did not monitor conditions in oil and gas wells. McAfee did not tell the company's directors that the transaction compensated a stock promoter, who received half of the two million shares.² As a result, McAfee caused Verdisys, essentially a start-up company, to not disclose that it had issued one million shares and incurred a compensation expense of \$500,000, to retain the promoter, before it could claim significant assets, revenues or business operations.

8. Verdisys delayed the filing of its quarterly report for the quarter ended September 30, 2003 (the "3Q Form 10-QSB"), after its auditor raised revenue recognition issues concerning a material \$1.5 million receivable related to the company's largest drilling contract. While the filing was in abeyance, McAfee caused Verdisys to issue an earnings release predicting the company would soon report record earnings.

9. On November 19, 2003, Verdisys filed a Form 10-QSB which reported that Verdisys had earned total current period revenues of \$2.09 million, including a \$1.5 million receivable. The 3Q Form 10-QSB did not disclose that McAfee's attempts to confirm recognition of the \$1.5 million receivable involved a buy-out agreement, by which Verdisys would assume substantial liabilities and forego collecting upon the \$1.5 million receivable to purchase the drilling project from which the receivable arose.

² McAfee beneficially received 230,000 restricted shares, and the other shareholders of the software corporation received the remaining 770,000 shares.

10. On December 3, 2003, after the auditor completed his review, Verdisys filed an amended 3Q Form 10-QSB. Verdisys still claimed approximately \$2 million in revenues, but, as its auditor advised, it classified only the \$500,000 actually paid as current period revenues. The remaining \$1.5 million supposedly owed upon the receivable was re-classified as deferred revenues, because of collection and contract contingency issues.³

FIRST CLAIM
Aiding and Abetting Violations
of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and
Rule 10b-5 [17 C.F.R. § 240.10b-5] Thereunder

11. Plaintiff Commission repeats and incorporates paragraphs 1 through 10 of this Complaint by reference as if set forth verbatim.

12. As described above, Verdisys, directly and indirectly, in connection with the purchase and sale of securities, and by use of the means and instrumentalities of interstate commerce and of the mails, made material misstatements, and omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and

13. By reason of his foregoing acts and practices, Defendant knowingly or recklessly aided and abetted the violations described above by Verdisys of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

³ Verdisys later determined it could not substantiate the delivery of any drilling services in the second and third quarters of 2003, and made disclosures and quarterly restatements that eliminated all unearned revenues, including the \$1.5 million in deferred revenues.

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court:

I.

Enter a Final Judgment ordering McAfee to pay a civil money penalty pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)]; and

II.

Grant such other relief as this Court may deem just or appropriate.

III.

Retain jurisdiction over this action in order to implement and carry out the terms of all orders and decrees that may hereby be entered, or to entertain any suitable application or motion by the Commission for additional relief within the jurisdiction of this Court.

Respectfully submitted,

/s Jeffrey B. Norris
JEFFREY B. NORRIS
District of Columbia Bar No. 424258
S.D. Texas Bar No. 23166
Attorney-in-Charge

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CIVIL COVER SHEET

The JS-44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. (SEE INSTRUCTIONS ON THE REVERSE OF THE FORM.)

I.(a) PLAINTIFFS

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Defendants-

ERIC A. McAFEE

(b) COUNTY OF RESIDENCE OF FIRST LISTED PLAINTIFF _____
(EXCEPT IN U.S. PLAINTIFF CASES)

County of Residence of First Listed Defendant: _____
(IN U.S. PLAINTIFF CASES ONLY)
NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE TRACT OF LAND INVOLVED.

(c) ATTORNEY (FIRM NAME, ADDRESS, AND TELEPHONE NUMBER)

Jeffrey Norris
U.S. Securities & Exchange Commission
801 Cherry Street, Suite 1900
Fort Worth, TX 76102
(817) 978-6452

ATTORNEYS (IF KNOWN)
Nicolas Morgan
DLA Piper Rudnick Gray Cary
1999 Avenue of the Starts, 4th Floor
Los Angeles, CA 90067

II. BASIS OF JURISDICTION (PLACE AN "X" IN ONE BOX ONLY)

- 1 U.S. Government Plaintiff
 2 U.S. Government Defendant
 3 Federal Question (U.S. Government Not a Party)
 4 Diversity (Indicate Citizenship of Parties in Item III)

III. CITIZENSHIP OF PRINCIPAL PARTIES (For Diversity Cases Only)

(PLACE AN "X" IN ONE BOX FOR PLAINTIFF AND ONE BOX FOR DEFENDANT)

- | | | | | | |
|---|----------------------------|----------------------------|---|----------------------------|----------------------------|
| | PTF | PTF | | PTF | PTF |
| Citizen of This State | <input type="checkbox"/> 1 | <input type="checkbox"/> 1 | Incorporated or Principal Place of Business in This State | <input type="checkbox"/> 4 | <input type="checkbox"/> 4 |
| Citizen of Another State | <input type="checkbox"/> 2 | <input type="checkbox"/> 2 | Incorporated and Principal Place of Business in Another State | <input type="checkbox"/> 5 | <input type="checkbox"/> 5 |
| Citizen or Subject of a Foreign Country | <input type="checkbox"/> 3 | <input type="checkbox"/> 3 | Foreign Nation | <input type="checkbox"/> 6 | <input type="checkbox"/> 6 |

IV. NATURE OF SUIT (PLACE AN "X" IN ONE BOX ONLY)

CONTRACT	TORTS	FORFEITURE/PENALTY	BANKRUPTCY	OTHER STATUTES
<input type="checkbox"/> 110 Insurance <input type="checkbox"/> 120 Marine <input type="checkbox"/> 130 Miller Act <input type="checkbox"/> 140 Negotiable Instrument <input type="checkbox"/> 150 Recovery of Overpayment & Enforcement of Judgment <input type="checkbox"/> 151 Medicare Act <input type="checkbox"/> 152 Recovery of Defaulted Student Loans (Excl. Veterans) <input type="checkbox"/> 153 Recovery of Overpayment of Veteran's Benefits <input type="checkbox"/> 160 Stockholders' Suits <input type="checkbox"/> 190 Other Contract <input type="checkbox"/> 195 Contract Product Liability <input type="checkbox"/> 196 Franchise	PERSONAL INJURY <input type="checkbox"/> 310 Airplane <input type="checkbox"/> 315 Airplane Product Liability <input type="checkbox"/> 320 Assault, Libel & Slander <input type="checkbox"/> 330 Federal Employers' Liability <input type="checkbox"/> 340 Marine <input type="checkbox"/> 345 Marine Product Liability <input type="checkbox"/> 350 Motor Vehicle <input type="checkbox"/> 355 Motor Vehicle Product Liability <input type="checkbox"/> 360 Other Personal Injury PERSONAL INJURY - Med. Malpractice <input type="checkbox"/> 362 Personal Injury - Med. Malpractice <input type="checkbox"/> 365 Personal Injury - Product Liability <input type="checkbox"/> 368 Asbestos Personal Injury Product Liability PERSONAL PROPERTY <input type="checkbox"/> 370 Other Fraud <input type="checkbox"/> 371 Truth in Lending <input type="checkbox"/> 380 Other Personal Property Damage <input type="checkbox"/> 385 Property Damage Product Liability	<input type="checkbox"/> 610 Agriculture <input type="checkbox"/> 620 Other Food & Drug <input type="checkbox"/> 625 Drug Related Seizure of Property 21 USC 881 <input type="checkbox"/> 630 Liquor Laws <input type="checkbox"/> 640 R.R. & Truck <input type="checkbox"/> 650 Airline Regs. <input type="checkbox"/> 660 Occupational Safety/Health <input type="checkbox"/> 690 Other	<input type="checkbox"/> 422 Appeal 28 USC 156 <input type="checkbox"/> 423 Withdrawal 28 USC 157 PROPERTY RIGHTS <input type="checkbox"/> 820 Copy rights <input type="checkbox"/> 830 Patient <input type="checkbox"/> 840 Trademark SOCIAL SECURITY <input type="checkbox"/> 861 HIA (1395FF) <input type="checkbox"/> 862 Black Lung (923) <input type="checkbox"/> 863 DIWC/DIWW (405(g)) <input type="checkbox"/> 864 SSID Title XVI <input type="checkbox"/> 865 RSI (405(g))	<input type="checkbox"/> 400 State Reapportionment <input type="checkbox"/> 410 Antitrust <input type="checkbox"/> 430 Banks and Banking <input type="checkbox"/> 450 Commerce <input type="checkbox"/> 460 Deportation <input type="checkbox"/> 470 Racketeer Influenced and Corrupt Organizations <input type="checkbox"/> 480 Consumer Credit <input type="checkbox"/> 810 Selective Service <input checked="" type="checkbox"/> 850 Securities Commodities/ Exchange <input type="checkbox"/> 875 Customer Challenge 12 USC 3410 <input type="checkbox"/> 890 Other Statutory Actions <input type="checkbox"/> 891 Agricultural Acts <input type="checkbox"/> 892 Economic Stabilization Act <input type="checkbox"/> 893 Environmental Matters <input type="checkbox"/> 894 Energy Allocation Act <input type="checkbox"/> 895 Freedom of Information Act <input type="checkbox"/> 900 Appeal of Fee Determination Under Equal Access to Justice <input type="checkbox"/> 950 Constitutionality of State Statutes
REAL PROPERTY <input type="checkbox"/> 210 Land Condemnation <input type="checkbox"/> 220 Foreclosure <input type="checkbox"/> 230 Rent Lease & Ejectment <input type="checkbox"/> 240 Torts to Land <input type="checkbox"/> 245 Tort Product Liability <input type="checkbox"/> 290 All Other Real Property	CIVIL RIGHTS <input type="checkbox"/> 441 Voting <input type="checkbox"/> 442 Employment <input type="checkbox"/> 443 Housing/ Accommodations <input type="checkbox"/> 444 Welfare <input type="checkbox"/> 440 Other Civil Rights	PRISONER PETITIONS <input type="checkbox"/> 510 Motions to Vacate Sentence Habeas Corpus: <input type="checkbox"/> 530 General <input type="checkbox"/> 535 Death Penalty <input type="checkbox"/> 540 Mandamus & Other <input type="checkbox"/> 550 Civil Rights	<input type="checkbox"/> 710 Fair Labor Standards Act <input type="checkbox"/> 720 Labor/Mgmt. Relations <input type="checkbox"/> 730 Labor/Mgmt. Reporting & Disclosure Act <input type="checkbox"/> 740 Railway Labor Act <input type="checkbox"/> 790 Other Labor Litigation <input type="checkbox"/> 791 Empl. Ret. Inc. Security Act	FEDERAL TAX SUITS <input type="checkbox"/> 870 Taxes (U.S. Plaintiff or Defendant) <input type="checkbox"/> 871 IRS - Third Party 26 USC 7609

V. ORIGIN

(PLACE AN "X" IN ONE BOX ONLY)

- 1 Original Proceeding
 2 Removed from State Court
 3 Remanded from Appellate Court
 4 Reinstated or Reopened
 5 Transferred from another district (Specify)
 6 Multidistrict Litigation
 7 Appeal to District Judge from Magistrate Judge

VI. CAUSE OF ACTION CITE THE U.S. CIVIL STATUTE UNDER WHICH YOU ARE FILING (DO NOT CITE JURISDICTIONAL STATUTES UNLESS DIVERSITY):

Brief Description of cause:

Aiding and Abetting Violations of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] Thereunder.

VII. REQUESTED IN COMPLAINT:

CHECK IF THIS IS A CLASS ACTION UNDER F.R.C.P. 23

DEMAND \$

CHECK YES only if demanded in complaint:
JURY DEMAND YES NO

VIII. RELATED CASE(S) (See Instructions):
IF ANY

JUDGE _____

DOCKET NUMBER _____

DATE **July 24, 2006**
SIGNATURE OF ATTORNEY OF RECORD
/s/ Jeffrey B. Norris

FOR OFFICE USE ONLY

Receipt # _____ AMOUNT _____ APPLYING IFP _____ JUDGE _____ MAG. JUDGE _____

