



14550 Torrey Chase Blvd., Suite 330  
Houston, Texas 77014

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD ON MAY 27, 2009**

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**TO OUR SHAREHOLDERS:**

Notice is hereby given that the 2009 Annual Meeting of Shareholders of Blast Energy Services, Inc. ("Blast" or the "Company") will be held at the Company's office location, 14550 Torrey Chase Blvd., Suite 330, Houston, Texas 77014, on Wednesday, May 27, 2009 at 10:00 a.m., local time (the "Meeting"), for the purposes set forth in this Notice. A Proxy Card and a Proxy Statement for the meeting are enclosed.

The Meeting is for the purpose of considering and voting upon the following proposals:

1. The election of five (5) directors to our Board of Directors (the "Board");
2. The ratification of GBH CPAs, PC who were appointed as the Company's Independent Public Accountant for the fiscal year ended December 31, 2009;
3. Approval of the Company's 2009 Stock Incentive Plan and the cancellation of the Company's previously adopted 2003 Employee Stock Option Plan, without affecting the validity of any securities which may have been issued pursuant to such plan; and
4. Consideration of any matters which may properly come before the Meeting, or any adjournment thereof.

Any action may be taken on any one of the foregoing proposals at the Meeting on the date specified above or on any date or dates to which the Meeting may be adjourned. Only shareholders of record as of the close of business on April 9, 2009 are entitled to notice of and to vote at the Meeting. However, our stock transfer books will remain open subsequent to the record date. There is printed on the following pages a Proxy Statement to which your attention is invited. Please read it carefully. The Proxy Statement and related materials are also available online at the Company's website: [http://blastenergyservices.com/2009\\_annual\\_meeting\\_proxy\\_materials.htm](http://blastenergyservices.com/2009_annual_meeting_proxy_materials.htm)

You are requested to complete and sign the enclosed form of Proxy which is solicited by the Board and to mail it promptly in the enclosed envelope whether or not you plan to attend the meeting.

By Order of the Board of Directors

/s/ John A. MacDonald

John A. MacDonald  
Secretary

Houston, Texas  
April 17, 2009

**YOU ARE CORDIALLY INVITED TO ATTEND THE ANNUAL MEETING. IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED REGARDLESS OF THE NUMBER YOU OWN. EVEN IF YOU PLAN TO BE PRESENT, YOU ARE URGED TO COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY PROMPTLY IN THE ENCLOSED ENVELOPE. IF YOU ATTEND THE MEETING, YOU MAY VOTE EITHER IN PERSON OR BY PROXY. YOUR PROXY MAY BE REVOKED BY YOU IN WRITING OR IN PERSON AT ANY TIME PRIOR TO EXERCISE.**

**PROXY STATEMENT**  
**ANNUAL MEETING OF BLAST SHAREHOLDERS**  
**TO BE HELD ON MAY 27, 2009**

**INTRODUCTORY STATEMENT**

This Proxy Statement and accompanying Proxy Card are furnished in connection with a solicitation of Proxies by the Board of Blast Energy Services, Inc. for use at the 2009 Annual Meeting of Shareholders of the Company, to be held at:

Blast Energy Services, Inc.  
14550 Torrey Chase Blvd., Suite 330  
Houston, Texas 77014  
May 27, 2009, at 10:00 a.m., local time,

for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders.

Shareholders of record at the close of business on April 9, 2009 will be entitled to receive notice of and to vote at the meeting. Each share of common stock and each share of Series A Convertible Preferred stock outstanding as of the record date are entitled to one vote for each matter submitted to a vote at the meeting. Shares represented by executed and unrevoked Proxies will be voted in accordance with the specifications made thereon. If the enclosed form of Proxy is executed and returned, it nevertheless may be revoked by giving another Proxy or by letter or fax directed to the Company. Any such revocation must show the shareholder's name and must be received prior to the commencement of the meeting in order to be effective. Additionally, any shareholder attending the meeting in person, who wishes to do so, may vote by ballot at the meeting, thereby canceling any Proxy previously given. Proxy materials will be available through the internet to shareholders of record on or about April 17, 2009.

*Shareholder of Record: Shares Registered in Your Name*

If on April 9, 2009 your shares were registered in your name with Blast's transfer agent, then you are a shareholder of record. As such, you may vote in person at the meeting or by proxy. Whether or not you plan to attend the meeting, you are encouraged to fill out and return the enclosed proxy card to ensure your vote is counted.

*Beneficial Owner: Shares Registered in the Name of a Broker or Bank*

If on April 9, 2009 your shares were held in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in "street name" and these proxy materials are required to be forwarded to you by that organization. The organization holding your account is considered the shareholder of record for purposes of voting at the annual meeting. As a beneficial owner, you have the right to direct your broker or other agent on how to vote the shares in your account. You are also invited to attend the annual meeting. However, since you are not the shareholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy from your broker or other agent.

*Multiple Shareholders Sharing the Same Address*

The Securities and Exchange Commission (the "SEC") has adopted rules that permit companies and intermediaries e.g., brokers to satisfy delivery requirements for proxy statements and annual reports with respect to two or more shareholders sharing the same address by delivering a single proxy statement addressed to those shareholders. This process potentially means extra convenience for shareholders and cost savings for companies. Shareholders sharing a same address may either contact the Company, or contact their broker, as applicable to request single or multiple proxy statement and annual report delivery, as desired.

*Cost of Proxy Solicitation*

The cost of solicitation will be borne by Blast. We will reimburse brokerage firms and other custodians, nominees, and fiduciaries for reasonable expenses incurred by them in sending proxy material to the beneficial owners of common stock. In addition to solicitation by mail, our directors and officers may solicit Proxies personally, without additional compensation.

## **VOTING AND RELATED MATTERS**

### Quorum Requirement

A quorum of shareholders is necessary to hold a valid meeting. A quorum will be present if shares representing a majority of the voting power of the outstanding shares are represented by shareholders present at the meeting or by proxy. On the record date, there were 60,667,404 shares of common stock outstanding and 6,000,000 shares of Series A Convertible Preferred Stock, and as such, there were 66,667,404 shares entitled to vote. Your shares will be counted towards the quorum only if a valid proxy vote is submitted or you vote at the meeting. Abstentions and broker non-votes will be counted in determining a quorum.

### Proposal Approval Requirements

Shareholders may vote "For" each nominee for director or withhold authority from voting for any nominee. For each of the other matters, shareholders may vote "For", "Against" or "Abstain". Each Proposal must be approved by an affirmative vote of a majority of the shares present and entitled to vote at the meeting.

### Vote Counting

Votes will be counted by the inspector appointed for the meeting, who will separately count "For", "Against", abstentions and broker non-votes. Abstentions and non-votes will not be counted in favor of any proposal.

### Voting Results

Preliminary voting results will be announced at the annual meeting. Final voting results will be published in the Company's quarterly report on Form 10-Q subsequent to the meeting.

## **ACTION TO BE TAKEN UNDER THE PROXY**

Proxies in the accompanying form that are properly executed and returned will be voted at the Annual Meeting in accordance with the instructions thereon. Any proxy upon which no instructions have been indicated by the shareholder with respect to a specific matter will be voted as follows with respect to such matter: (1) "FOR" the election of the slate of five persons named as Management's nominees for election to our Board of Directors; (2) "FOR" the ratification of the appointment of GBH CPA's, PC as the Independent Public Accountant for the fiscal year ended December 31, 2009; and (3) "FOR" the approval of the Company's 2009 Stock Incentive Plan and the cancellation of the Company's previously adopted 2003 Employee Stock Option Plan; and (4) "FOR" the transaction of any other business to come before the Meeting, in the discretion of the holders of such Proxies.

## **SHAREHOLDER PROPOSALS**

In accordance with Rule 14a-8 under the Securities Exchange Act of 1934, as amended, a shareholder may require that certain proposals suggested by shareholders be voted on at a shareholders meeting. Information concerning such proposals must be submitted to us for inclusion in our proxy statement. Such proposals for inclusion in our proxy materials relating to our Annual Meeting planned for 2010 must be received by us not later than January 31, 2010.

## **OTHER BUSINESS**

As of the date of this Proxy Statement, we have no knowledge of any business, other than previously described herein, which should be presented for consideration at the meeting. In the event that any other business is presented at the meeting, we intend that the persons named in the enclosed Proxy will have authority to vote such Proxy in accordance with their best judgment on such business.

## **NOTICE TO BANKS, BROKERS/DEALERS, VOTING TRUSTEES, AND THEIR NOMINEES**

Please advise us, in care of our corporate address, whether any other persons are the beneficial owners of the shares of common stock for which Proxies are being solicited from you, and, if so, the number of copies of the Proxy Statement, and other soliciting materials, you wish to receive in order to supply copies to the beneficial owners of shares.

## RELATED MATERIALS

The Company's Annual Report on Form 10-K for the fiscal year ending December 31, 2008 is available online at the Company's website: [http://blastenergyservices.com/2009\\_annual\\_meeting\\_proxy\\_materials.htm](http://blastenergyservices.com/2009_annual_meeting_proxy_materials.htm) and is also available online at [www.sec.gov](http://www.sec.gov) through the EDGAR database at: <http://www.sec.gov/Archives/edgar/data/1141197/000114119709000005/form10-k.htm>. Any shareholder who is unable to retrieve a copy of such Annual Report may obtain a copy from our website at [www.blastenergyservices.com](http://www.blastenergyservices.com) or by request. The Annual Report is not to be treated as part of the proxy solicitation material, or as having been incorporated by reference.

## PROPOSAL ONE

### ELECTION OF DIRECTORS

Our bylaws currently have set a minimum board of one director and a maximum of ten. We propose five nominees for director this year – all of whom are currently serving as directors of the Company. Each director to be elected will hold office until the next annual meeting of shareholders and until his successor is elected, or until the director's death, resignation or removal.

#### Nominees for the Board of Directors:

**John R. Block**, 74, has served as a director for our Company since May 2000. He is currently serving as Senior Legislative Advisor for the Washington D.C. based law firm of Olsson, Frank and Weeda, P.C., a firm that represents the food industry. Prior to that, he served as President of the Food Distributors International, an organization that represents the wholesale grocery and foodservice distribution industry. Also, Mr. Block served as Secretary of Agriculture for the U.S. Department of Agriculture from 1981 to 1986. He currently serves as a director of Hormel Foods Corp. (NYSE:HRL) and AE BioFuels, Inc. (OTCBB:AEBF), a company controlled by Eric McAfee.

**Roger P. (Pat) Herbert**, 62, has served as a Blast director since June 2005. He has worked in the energy services business for nearly 30 years. He is currently serving as a director and CEO for JDR Cable Systems (Holdings) Ltd – a position he has held since 2002. Prior to that, he served as COO of Petris Technology for a year and before that he was the Chairman & CEO of GeoNet Energy Services, a company he founded in 2000. Prior to 2000 Mr. Herbert had worked with International Energy Services, Baker Hughes Incorporated (NYSE:BHI) and Smith International, Inc. (NYSE:SII). Mr. Herbert received his MBA. from Pepperdine University, his BSE. from California State University-Northridge and is a registered professional engineer in the State of Texas.

**Joseph J. Penbera, Ph.D.**, 61, co-founded our Company and has served as a director since its inception in April 1999. Since 1985, he has been a Professor of Business at California State University, Fresno, where he previously served as Dean of the Craig School of Business, and was appointed a Senior Fulbright Scholar in 2005. Dr. Penbera was Senior Economist at Westamerica Bank, Regency Bancorp and California Bank from 1999 to 2002. Dr. Penbera is on the Board of Gottschalks, Inc. (PK:GOTTQ), a publicly traded regional department store, currently in Chapter 11 liquidation and Rug Doctor, Inc. Dr. Penbera received his PhD from American University, his MPA. from Bernard Baruch School and his BA from Rutgers University.

**Jeffrey R. Pendergraft**, 60, currently serves as Chairman and CEO of HNNG Development, a company focused on commercialization of low BTU natural gas. In addition, he is the founder and principal of the Wind Rose Group, an energy investment and advisory firm. His broad background includes private investments, financings, mergers and acquisitions. He has been recognized for achievements in change management, corporate governance, finance, and legal affairs. Prior to forming Wind Rose in 2001, he was EVP and Chief Administrative Officer at Lyondell Chemical and prior to that he served as staff counsel for ARCO. Mr. Pendergraft received his BA from Stanford University, and his Juris Doctor from Stanford University School of Law.

**Michael L. Peterson**, 47, joined the board as a director in May 2008. He is currently Chairman and CEO of Solargen Energy Inc, a developer of large thin-film solar farms, and managing partner of California-based, Pascal

Management, a registered Investment Advisor. In 2005, he co-founded and became a managing partner of American International Partners, a venture investment fund based in Salt Lake City. Prior to that time, he served for four years as a First Vice President at Merrill Lynch. For a majority of his career, he was employed by Goldman Sachs & Co. as a Vice President with the responsibility for a team of professionals that advised and managed over \$7 billion in assets. Mr. Peterson received his MBA at the Marriott School of Management and a BS from Brigham Young University. He is also a director of AE Biofuels, Inc. (OTCBB: AEBF) a company controlled by Eric McAfee.

**Recommendation and Vote**

It is the intention of the persons named in the accompanying form of Proxy to vote such Proxy “FOR” the election of each person listed above, unless shareholders specifically indicate in their Proxies that they desire to withhold from voting for the election of such certain Directors to office. Our Board does not contemplate that any nominee will be unable to serve as a Director for any reason, but if that should occur prior to the meeting, the Board reserves the right to substitute another person(s) of their choice as nominee(s). Each nominee must be approved by a plurality of votes cast at the Annual Meeting. A vote to “withhold authority” for a particular nominee shall have no legal effect. Our Management recommends that shareholders vote “FOR” the election of the nominees.

**PROPOSAL TWO**

**RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT PUBLIC ACCOUNTANT**

The Audit Committee and the Board have appointed and request you to vote “FOR” the ratification of the appointment by the Board of GBH CPAs, PC as the Independent Public Accountant for the Company for the fiscal year ended December 31, 2009.

Representatives from GBH CPAs, PC are not required to be present at the shareholders meeting, but have been invited and are encouraged to attend. They will have an opportunity to make statements if they attend and are encouraged to respond to any appropriate questions from shareholders attending the meeting.

We do not anticipate having, nor have we had during the two most recent fiscal years or any subsequent interim period any disagreements with accountants on matters of accounting, financial disclosure, matters of accounting principles or practices, or auditing scope or procedure; nor has any independent public accountant, currently or in past recent years, resigned or declined to stand for re-election.

The financial statements audited by the independent public accountant for the past two years do not contain an adverse opinion or disclaimer of opinion and they were not modified as to uncertainty, audit scope or accounting principles.

*Independent Public Accountant Fees and Services*

The following table presents fees for professional audit services performed by GBH CPAs, PC for the audit of our annual financial statements for the fiscal years ended December 31, 2008 and 2007 and Malone & Bailey, PC for the quarterly reviews for the year ended December 31, 2007 and fees billed for other services rendered by it during those periods.

	<u>2008</u>	<u>2007</u>
GBH CPAs, PC:		
Audit fees	\$ 55,000	\$ 24,000
Other non-audit fees	\$ -	\$ -
Tax related fees	\$ -	\$ -
Malone & Bailey, PC		
Audit fees	\$ -	\$ 42,046
Other non-audit fees	\$ -	\$ 10,368
Tax related fees	\$ -	\$ -

Total \$ 55,000 \$ 76,414

Audit-Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of Blast's consolidated financial statements and are not reported under Audit fees.

Audit Committee: The registrant's Audit Committee, or officers performing such functions, has approved the independent public accountant's performance of services for the audit and review of financial statements or services normally provided by the accountant in connection with statutory and regulatory filings or engagements for the fiscal year ending December 31, 2008.

#### **Recommendation and Vote**

It is the intention of the persons named in the accompanying form of Proxy to vote such Proxy "FOR" ratification of GBH CPAs, PC being appointed as the Independent Public Accountant for the Company's fiscal year ended December 31, 2009, unless shareholders specifically indicate in their Proxies that they desire to vote against the proposal or abstain from voting. Approval requires an affirmative vote of a majority of the shares present and entitled to vote at the Annual Meeting. Our Management recommends that shareholders vote "FOR" this proposal.

### **PROPOSAL THREE**

#### **APPROVAL OF THE 2009 STOCK INCENTIVE PLAN AND CANCELLATION OF THE COMPANY'S 2003 EMPLOYEE STOCK OPTION PLAN, WITHOUT AFFECTING THE VALIDITY OF ANY OF THE SECURITIES ISSUED PURSUANT TO SUCH PLAN**

The Compensation Committee and the Board request you to vote "FOR" the approval of the 2009 Stock Incentive Plan.

This 2009 Stock Incentive Plan is intended to secure for the Company the benefits arising from ownership of the Company's Common Stock by the Employees, Officers, Directors and Consultants of the Company, all of whom are and will be responsible for the Company's future growth. The Plan is designed to help attract and retain for the Company and its Affiliates personnel of superior ability for positions of exceptional responsibility, to reward Employees, Officers, Directors and Consultants for their services and to motivate such individuals through added incentives to further contribute to the success of the Company and its Affiliates.

The Compensation Committee and the Board also request that you vote "FOR" the simultaneous cancellation of the Company's previously adopted 2003 Employee Stock Option Plan, without affecting the validity of any securities which may have been issued pursuant to such plan. Under that plan, 8,000,000 options were authorized and 3,134,792 options have been awarded. Upon approval of this new 2009 Plan, the 4,865,208 options not awarded from the 2003 Plan will be cancelled, however the 3,134,792 options granted pursuant to the prior plan will remain valid and outstanding.

A copy of the 2009 Stock Incentive Plan is included as Exhibit A to this Proxy Statement.

#### **Recommendation and Vote**

It is the intention of the persons named in the accompanying form of Proxy to vote such Proxy "FOR" approval of the 2009 Stock Incentive Plan, unless shareholders specifically indicate in their Proxies that they desire to vote against the proposal or abstain from voting. Approval requires an affirmative vote of a majority of the shares present and entitled to vote at the Annual Meeting. Our Management recommends that shareholders vote "FOR" this proposal.

### **SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth, as of April 9, 2009, the record date, the number and percentage of outstanding shares of our common stock owned by: (a) each person who is known by us to be the beneficial owner of more than 5% of our outstanding shares of common stock; (b) each of our directors; (c) the named executive officers as defined in

Item 402 of Regulation S-K; and (d) all current directors and executive officers, as a group. As of April 7, 2009, there were 60,667,404 shares of common stock issued and outstanding, which number does not include 1,150,000 approved but unissued shares arising from the class action settlement from 2005, but does include 35,000 shares, that are still outstanding as of the filing of this report, but which shares Blast expects to cancel in the second quarter of 2009, and 6,000,000 shares of Series A Convertible Preferred Stock, and as such, there were 66,667,404 shares entitled to vote as of the record date.

Beneficial ownership has been determined in accordance with Rule 13d-3 under the Exchange Act. Under this rule, certain shares may be deemed to be beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed to be beneficially owned by a person if the person has the right to acquire shares (for example, upon exercise of an option or warrant) within 60 days of the date as of which the information is provided. In computing the percentage ownership of any person, the amount of shares is deemed to include the amount of shares beneficially owned by such person by reason of such acquisition rights. As a result, the percentage of outstanding shares of any person as shown in the following table does not necessarily reflect the person's actual voting power at any particular date.

To our knowledge, except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

<b>Name and Address of Beneficial Owner<sup>1</sup></b>	<b>Number of Beneficial Shares Owned</b>		<b>Shares Able to Vote at Record Date</b>	<b>Percentage of Shares Able to Vote</b>
<b><u>Beneficial Owners of more than 5%</u></b>				
Laurus Master Fund Ltd. 335 Madison Ave. New York, New York 10017	7,440,000	(2)	1,350,000	2.02%
Berg McAfee Companies LLC <sup>(3)</sup> 10600 N. De Anza Blvd., #250 Cupertino, California 95014	8,733,436	(4)	8,733,436	13.10%
McAfee Capital LLC <sup>(5)</sup> 10600 N. De Anza Blvd., #250 Cupertino, California 95014	6,080,000	(6)	5,080,000	7.62%
Eric A. McAfee 10600 N. De Anza Blvd., #250 Cupertino, California 95014	16,026,534	(7)	15,026,534	22.54%
Clyde Berg 10600 N. De Anza Blvd., #250 Cupertino, California 95014	15,188,436	(8)	14,188,436	21.28%
<b><u>Officers and Directors:</u></b>				
John O'Keefe	1,845,000	(9)	545,000	*
John MacDonald	531,450	(10)	181,450	*
John R. Block	670,083	(11)	443,250	*
Roger P. (Pat) Herbert	617,333	(12)	472,500	*
Joseph J. Penbera, PhD	1,480,785	(11)	1,253,952	1.88%
Jeffrey R. Pendergraft	480,333	(13)	347,500	*
Michael L. Peterson	920,833	(14)	800,000	1.20%
All directors and executive officers as a group (7 persons)	6,545,817	(15)	4,043,652	6.07%

\* Less than 1%

- (1) Unless otherwise indicated, the mailing address of the beneficial owner is c/o Blast Energy Services, Inc., 14550 Torrey Chase Blvd., Suite 330, Texas 77014.
- (2) Consisting of (i) 1,350,000 shares of common stock, (ii) 6,090,000 shares of common stock underlying warrants exercisable at \$1.44 per share and (iii) 1,555,089 shares of common stock underlying warrants exercisable at a price of \$0.01 per share. Under the terms of the warrants, Laurus is prohibited from exercising the warrants in an amount which would cause it and its affiliates to beneficially own more than 4.99% of the common stock of Blast.
- (3) Berg McAfee Companies is controlled by Clyde Berg and Eric McAfee.
- (4) Consisting of 8,733,436 shares of common stock held by Berg McAfee Companies LLC.
- (5) McAfee Capital is controlled by Eric McAfee. Eric McAfee is the Company's former Vice-Chairman.
- (6) Consisting of (i) 2,080,000 shares of common stock held, (ii) 3,000,000 shares of common stock issuable upon conversion of Convertible Preferred stock at \$.50 per share and (iii) 1,000,000 shares of common stock underlying warrants exercisable at \$0.10 per share.
- (7) Consisting of: (i) 1,213,098 common shares held personally, including 90,000 shares held by members of Mr. McAfee's household, which Mr. McAfee is deemed to beneficially own; (ii) 8,733,436 shares of common stock held by Berg McAfee Companies LLC, which Mr. McAfee is deemed to beneficially own; (iii) 2,080,000 common shares, 3,000,000 common shares issuable upon conversion of the Convertible Preferred stock and warrants to purchase 1,000,000 shares at an exercise price of \$0.10 granted in connection with the Convertible Preferred stock offering held by McAfee Capital LLC, which Mr. McAfee is deemed to beneficially own (as described herein).
- (8) Consisting of: (i) 2,455,000 common shares held personally, (ii) 8,733,436 shares of common stock held by Berg McAfee Companies LLC, which Clyde Berg is deemed to beneficially own; (iii) 3,000,000 common shares issuable upon the conversion of the Convertible Preferred stock; and (iv) warrants to purchase 1,000,000 shares at an exercise price of \$0.10 per share granted in connection with the Convertible Preferred stock offering (as described herein).
- (9) Consisting of: (i) 545,000 shares of common stock held personally or through family-owned entities in which Mr. O'Keefe has investment and voting power and (ii) 1,300,000 shares of common stock underlying options or warrants.
- (10) Consisting of: (i) 181,450 shares of common stock and (ii) 350,000 shares of common stock underlying options or warrants.
- (11) Consisting of (i) 443,250 shares of common stock and (ii) 222,667 shares of common stock underlying options.
- (12) Consisting of (i) 472,500 shares of common stock and (ii) 140,667 shares of common stock underlying options.
- (13) Consisting of (i) 1,253,952 shares of common stock and (ii) 222,667 shares of common stock underlying options.
- (14) Consisting of (i) 347,500 shares of common stock and (ii) 128,667 shares of common stock underlying options.
- (15) Consisting of (i) 800,000 shares of common stock and (ii) 116,667 shares of common stock underlying options.
- (16) Consisting of the holdings provided above in notes 9 through 15.

## **HOLDERS**

As of April 7, 2009, we had 60,667,404 shares of common stock issued and outstanding held by approximately 350 shareholders of record, which number does not include 1,150,000 shares allocated but not yet issued from our approved class action settlement from 2005 and 6,000,000 shares of Series A Convertible Preferred Stock, and as such, there were 66,667,404 shares entitled to vote as of the record date.

## **EXECUTIVE OFFICERS**

The Executive Officers of the Company are elected by the Board of Directors, as set forth below.

<u>Name</u>	<u>Age</u>	<u>Current Position</u>
John O'Keefe	60	President & CEO
John MacDonald	50	Executive VP & CFO

**John O'Keefe** was appointed President and Chief Executive Officer in March 2007. From May 2004 until March 2007, Mr. O'Keefe served as Co-Chief Executive Officer of the Company. From January 2004 through May 2004 he served as Executive Vice President and from January 2004 until March 2007, Mr. O'Keefe served as Chief Financial Officer of the Company. From September 1999 to October 2000, Mr. O'Keefe served as Vice President of Investor Relations of Santa Fe Snyder, and from October 2000 to December 2003, he served as Executive Vice President and Chief Financial Officer of Ivanhoe Energy. He spent the majority of his career with Sun Oil Company and BP. Mr. O'Keefe has a BA in Business from the University of Portsmouth, is a Chartered Accountant and graduated from the Program for Management Development from the Harvard Graduate School of Business in 1985 under sponsorship of Sun Oil Company.

**John MacDonald** has served as our Chief Financial Officer since April 2007. From March 2004 until March 2007, Mr. MacDonald served the Company as Vice President of Investor Relations and Corporate Secretary. He retains the title of Corporate Secretary. From January 2004 until March 2004, Mr. MacDonald served as an Investor Relations consultant. From June 2001 until December 2003, he was Vice President of Investor Relations for Ivanhoe Energy. Mr. MacDonald held investor relations and financial analysis positions with EEX Corporation and Oryx Energy from 1980 to 2001. Mr. MacDonald received an MBA from Southern Methodist University in 1994 and his BA from Oklahoma State University in 1980.

## **INFORMATION ABOUT THE BOARD AND ITS COMMITTEES**

The business of the Company is managed under the direction of the Board. The directors will serve in such capacity until the next annual meeting of our shareholders and until their successors have been elected and qualified. The directors frequently discuss and informally review significant developments affecting the Company and act on matters requiring Board approval. The Board also holds special meetings and acts by written consent. The Board has been meeting bi-monthly by teleconference and held twenty-eight meetings during 2008. Each incumbent director attended at least 75% of the aggregate total Board meetings held during the period for which he was a director and the total number of committee meetings held on which the director served.

In October 2008, Mr. Block was appointed to the board of directors for AE Biofuels, a California-based vertically integrated biofuels company. The Chairman and CEO of AE Biofuels is Eric McAfee. Mr. McAfee is also the managing partner for McAfee Capital LLC and president of Berg McAfee Companies LLC, both of whom are significant shareholders of Blast. Michael Peterson is also a director of AE Biofuels.

The officers serve at the discretion of our directors. There are no familial relationships among our officers and directors, nor are there any arrangements or understandings between any of our directors or officers or any other person pursuant to which any officer or director was or is to be selected as an officer or director.

No non-compete or non-disclosure agreements exist between our management and any prior or current employer.

Our directors are aware of no petitions or receivership actions having been filed or court appointed as to our business activities, officers, directors, or key personnel.

We have not, nor anticipate, making loans to any of our officers, directors, key personnel, 10% shareholders, relatives thereof, or controllable entities. None of our officers, directors, key personnel, or 10% shareholders has guaranteed or co-signed any bank debt, obligation, or any other indebtedness pertaining to us.

### ***Audit Committee***

The Audit Committee of the Board currently consists of Dr. Penbera, Mr. Herbert, Mr. Block and Mr. Peterson, each

of whom are independent, non-employee directors. The Committee selects, on behalf of our board of directors, an independent public accounting firm to audit our financial statements, discuss with the independent auditors their independence, review and discuss the audited financial statements with the independent auditors and management, and recommend to our board of directors whether the audited financials should be included in our Annual Reports to be filed with the SEC. The Audit Committee operates pursuant to a written charter, which was adopted in 2003. During the last fiscal year, the Committee held three meetings.

All of the members of the Audit Committee are non-employee directors who: (1) met the criteria for independence set forth in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”); (2) did not participate in the preparation of our financial statements or the financial statements of Blast; and (3) are able to read and understand fundamental financial statements, including a balance sheet, income statement, and cash flow statement. The Board has determined that Dr. Penbera qualifies as an “audit committee financial expert” as defined by Item 407(d)(5)(ii) of Regulation S-K of the Exchange Act. He receives compensation for board service only and is not otherwise an affiliated person.

#### ***Compensation Committee***

The Compensation Committee of the board consists of Mr. Block, Mr. Pendergraft, and Mr. Peterson, each of whom are independent directors, as defined in Rule 10A-3 of the Exchange Act. The Compensation Committee reviews and approves (1) the annual salaries and other compensation of our executive officers, and (2) individual stock and stock option grants. The Compensation Committee also provides assistance and recommendations with respect to our compensation policies and practices, and assists with the administration of our compensation plans. The Compensation Committee operates pursuant to a written charter, which was adopted in 2003. During the last fiscal year the Compensation Committee held two meetings.

#### ***Nominating and Corporate Governance Committee***

The Nominating and Corporate Governance committee of the board currently consists of Mr. Herbert, Dr. Penbera, and Mr. Pendergraft, each of whom are found by the board of directors to be an “independent director” pursuant to the applicable rules and regulations promulgated by the SEC. The Committee assists our board of directors in fulfilling its responsibilities by: identifying and approving individuals qualified to serve as members of our board of directors, selecting director nominees for our annual meetings of shareholders, evaluating the performance of our board of directors, and developing and recommending to our board of directors corporate governance guidelines and oversight procedures with respect to corporate governance and ethical conduct. This committee operates pursuant to a written charter adopted in 2003. During the last fiscal year, the Committee held two meetings.

### **EXECUTIVE COMPENSATION**

Other than Mr. O’Keefe and Mr. MacDonald, we have no other person that is a named as an executive officer, as of December 31, 2008.

#### ***Summary Compensation Table***

The following tables set forth certain information regarding our CEO and each of our most highly-compensated executive officers whose total annual salary and bonus for the fiscal years ending December 31, 2008 and 2007 exceeded \$100,000.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary (\$)</u>	<u>Option &amp; Warrant Awards (\$)<sup>1</sup></u>	<u>All Other Compensation (\$)<sup>2</sup></u>	<u>Total (\$)</u>
John O'Keefe	2008	208,333 <sup>3</sup>	121,372	-	329,705
CEO and President	2007	200,000	-	-	200,000
John MacDonald	2008	185,500 <sup>4</sup>	43,964	-	229,464
CFO and Secretary	2007	105,000	-	-	105,000
Andrew Wilson	2008	182,292 <sup>5</sup>	60,776	-	243,068
VP Bus. Development (non-executive position)	2007	175,000	-	-	175,000
David Adams	2008	-	-	-	-
Former President	2007	70,000	-	130,000	200,000

No executive officer received any bonus, stock awards, non-equity incentive plan compensation, or non-qualified deferred compensation earnings during the periods presented above. The table above excludes perquisites and other personal benefits, or property, in the event the aggregate amount of such compensation is less than \$10,000.

- (1) Reflects the amount recognized for financial statement reporting purposes for the year ended December 31, 2008 in accordance with FAS 123(R) (but disregarding forfeiture estimates related to service-based vesting conditions) and, accordingly, includes amounts from options granted prior to 2007. See the information appearing under the heading entitled "Stock Options and Warrants" in Note 15 to our consolidated financial statements in Part IV of this Annual Report.
- (2) Represents accrued severance pay related to the terms of Mr. Adam's employment contract following his resignation on June 30, 2007 and paid upon the confirmation of the Plan of Reorganization on February 27, 2008.
- (3) Includes \$8,333 of deferred pay from 2006 paid to Mr. O'Keefe upon the confirmation of the Plan of Reorganization on February 27, 2008.
- (4) Includes the \$35,500 in deferred pay from 2007 following his promotion to CFO in April 2007 paid upon the confirmation of the Plan of Reorganization on February 27, 2008.
- (5) Includes \$7,292 of deferred pay from 2006 paid to Mr. Wilson upon the confirmation of the Plan of Reorganization on February 27, 2008.

#### ***Grants of Plan Based Awards in 2008***

The following table presents each grant of warrants established under the Plan of Reorganization to the individuals named in the summary compensation table above.

<u>Name</u>	<u>Grant Date</u>	<u>Securities Underlying Warrants<sup>(1)</sup></u>	<u>Exercise Price of Warrant Awards</u>	<u>Grant Date Fair Value of Warrants</u>
John O'Keefe	05/15/08	400,000	\$ 0.20	\$ 63,912
John MacDonald	05/15/08	200,000	\$ 0.20	\$ 31,956
Andrew Wilson	05/15/08	200,000	\$ 0.20	\$ 31,956

- (1) Vests immediately on date of grant.

Each of the options in the foregoing table was granted under the Company's 2003 Employee Stock Option Plan. Warrants were granted under the terms established by the Second Amended Plan of Reorganization (the "Plan").

*Outstanding Equity Awards at Fiscal Year-End*

<u>Name</u>	<u>Warrant and Option Awards*</u>		<u>Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)</u>	<u>Option Exercise Price (\$)</u>	<u>Option Expiration Date</u>
	<u>Securities Underlying Unexercised Equity Awards (#) Exercisable</u>	<u>Securities Underlying Unexercised Equity Awards (#) Unexercisable</u>			
John O'Keefe	400,000 <sup>(1)</sup>	-	-	\$ 0.20	05/15/13
	80,000	-	-	\$ 4.28	01/21/14
	420,000	-	-	\$ 0.90	07/29/14
	400,000	-	-	\$ 0.80	12/31/15
John MacDonald	200,000 <sup>(1)</sup>	-	-	\$ 0.20	05/15/13
	100,000	-	-	\$ 0.40	03/14/15
	50,000	-	-	\$ 0.80	12/31/15
Andrew Wilson	10,000	-	-	\$ 0.10	03/01/13
	744,792	-	-	\$ 0.10	04/15/13
	200,000 <sup>(1)</sup>	-	-	\$ 0.20	05/15/13
	200,000	-	-	\$ 0.80	12/31/15

(1) Warrants. All other equity awards represent Options.

\*None of the Company's officers or Directors held any outstanding Non-vested Stock Awards as of December 31, 2008.

**DIRECTOR COMPENSATION**

Currently, each independent director earns compensation as outlined in the table below. The Board reserves the right in the future to award directors additional cash or stock based consideration for their services to Blast, which awards, if granted shall be in the sole determination of the Board of Directors.

In summary, Board members fees are calculated on the following basis:

<u>Monthly Retainer</u>	<u>Amount</u>
Board Chair	\$ 2,500
Board Member	\$ 2,500
Audit Committee Chair	\$ 1,500
Compensation Committee Chair	\$ 1,000
Nominating and Governance Committee Chair	\$ 1,000

**EXECUTIVE EMPLOYMENT AGREEMENTS**

John O'Keefe is employed by us pursuant to an Employment Agreement entered into upon the confirmation of the Plan of Reorganization on February 27, 2008. Mr. O'Keefe is employed as President and CEO of the Company at an annual salary of \$200,000. The term of the agreement is for one year and is automatically renewed unless cancelled by the Board. The contract may be cancelled by either party with a 60-day written notice. Should the contract be cancelled by the Company, he is entitled to severance pay equal to six months pay. Mr. O'Keefe is also entitled to participate in our annual compensation program with a potential bonus of up to 50% of his base. Effective March 31, 2007, Mr. O'Keefe assumed the title of President and CEO. Prior to that date he had been the Company's co-CEO and CFO since January 2004.

John MacDonald is employed by us pursuant to an Employment Agreement entered into upon the confirmation of the Plan of Reorganization on February 27, 2008. Mr. MacDonald is employed as Executive Vice President and CFO of the Company at an annual salary of \$150,000. The term of the agreement is for one year and is automatically renewed unless cancelled by the Board. The contract may be cancelled by either party with a 60-day written notice. Should the contract be cancelled by the Company, he is entitled to severance pay equal to six months pay. Mr. MacDonald is also entitled to participate in our annual compensation program with a potential bonus of up to 50% of his base. Mr. MacDonald had been the Company's CFO since April 2007 and retained his duties as Vice President of Investor Relations and Corporate Secretary since March 2004.

## **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

### **Berg McAfee Companies**

In 2008, Berg McAfee Companies, LLC ("BMC") extended the term for the \$1.0 million Note secured on the Applied Fluid Jetting rig (described below) for three years. The revised Note was issued for \$1.12 million, including accumulated interest, and carries an 8% interest rate and is convertible into common stock at \$0.20 per share.

On July 15, 2005, Blast entered into an agreement to develop its initial applied jetting rig with BMC. The arrangement involves two loans for a total of \$1 million to fund the completion of the initial rig and sharing in the expected rig revenues for a ten-year period. Under the terms of the loan agreement with BMC, cash revenues will be shared on the basis of allocating 90 percent to Blast and 10 percent to BMC for a ten-year period following repayment. After ten years, Blast will receive all of the revenue from the rig. BMC also has the option to fund an additional three rigs under these commercial terms. This note was originally due in March 2007 and was extended for three years, as described above.

### **McAfee Capital**

On the effective date, the Plan allowed McAfee Capital to convert the \$416,000 outstanding balance of the DIP loan, including accrued interest, they provided during the bankruptcy into the Company's common stock at the rate of one share of common stock for each \$0.20 of the DIP loan outstanding. Accordingly, 2,080,000 shares were issued to McAfee Capital in April 2008.

In January 2008, Blast sold the rights to an aggregate of 1,000,000 units each consisting of four shares of Series A Convertible Preferred Stock and one three year warrant with an exercise price of \$0.10 per share (the "Units"), for an aggregate of \$2,000,000 or \$2.00 per Unit, to McAfee Capital, LLC. The Units were issued after Blast was re-domiciled and the Preferred Stock authorized. The shares of common stock issuable in connection with the exercise of the warrants and in connection with the conversion of the Preferred Stock were granted piggy-back registration rights in connection with the sale of the Units. In October 2008, the Company redeemed 1,000,000 of the Preferred Stock shares for \$500,000.

### **Clyde Berg**

On the effective date, the Plan allowed Mr. Berg to convert the \$416,000 outstanding balance of the DIP loan, including accrued interest, he provided during the bankruptcy into the Company's common stock at the rate of one share of common stock for each \$0.20 of the DIP loan outstanding. Accordingly, 2,080,000 shares were issued to Mr. Berg in April 2008.

In January 2008, Blast sold the rights to an aggregate of 1,000,000 units each consisting of four shares of Series A Convertible Preferred Stock and one three year warrant with an exercise price of \$0.10 per share (the "Units"), for an aggregate of \$2,000,000 or \$2.00 per Unit, to Clyde Berg, an individual. The Units were issued after Blast was re-domiciled and the Preferred Stock authorized. The shares of common stock issuable in connection with the exercise of the warrants and in connection with the conversion of the Preferred Stock were granted piggy-back registration rights in connection with the sale of the Units. In October 2008, the Company redeemed 1,000,000 of the Preferred Stock shares for \$500,000. As a partner in BMC and in combination with holding these units, Mr.

Berg is the beneficial holder of more than 5% of the outstanding shares of common stock of Blast.

**Eric McAfee**

As a partner in BMC and McAfee Capital and in combination with his personal holdings, Mr. McAfee is the beneficial holder of more than 5% of the outstanding shares of common stock of Blast. Eric McAfee is the Company's former Vice-Chairman.

**OTHER MATTERS**

The Board does not intend to bring any other matters before the annual meeting of stockholders and has not been informed that any other matters are to be presented by others.

**INTEREST OF CERTAIN PERSONS IN OR OPPOSITION TO MATTERS TO BE ACTED UPON:**

(a) No officer or director of the Company has any substantial interest in the matters to be acted upon, other than his role as an officer or director of the Company.

(b) No director of the Company has informed the Company that he intends to oppose the action taken by the Company set forth in this proxy.

**PROPOSALS BY SECURITY HOLDERS**

No security holder has requested the Company to include any proposals in this proxy.

**COMPANY CONTACT INFORMATION**

All inquires regarding our Company should be addressed to our Company's principal executive office:

Blast Energy Services, Inc.  
14550 Torrey Chase Blvd., Suite 330  
Houston, Texas 77014

Attention:       John A. MacDonald  
                      Secretary

**BLAST ENERGY SERVICES, INC.  
2009 STOCK INCENTIVE PLAN**

**ARTICLE I -- PREAMBLE**

1.1 This 2009 Stock Incentive Plan of Blast Energy Services, Inc. (the "Company") is intended to secure for the Company and its Affiliates the benefits arising from ownership of the Company's Common Stock by the Employees, Officers, Directors and Consultants of the Company and its Affiliates, all of whom are and will be responsible for the Company's future growth. The Plan is designed to help attract and retain for the Company and its Affiliates personnel of superior ability for positions of exceptional responsibility, to reward Employees, Officers, Directors and Consultants for their services and to motivate such individuals through added incentives to further contribute to the success of the Company and its Affiliates. With respect to persons subject to Section 16 of the Act, transactions under this Plan are intended to satisfy the requirements of Rule 16b-3 of the Act.

1.2 Awards under the Plan may be made to an Eligible Person in the form of (i) Incentive Stock Options (to Eligible Employees only); (ii) Nonqualified Stock Options; (iii) Restricted Stock; (iv) Stock Awards; (v) Performance Shares; or (vi) any combination of the foregoing.

1.3 The Company's board of directors adopted the Plan on March 30, 2009. The Plan shall be effective April 1, 2009, (the "Effective Date"), subject to approval by the shareholders of the Company to the extent necessary to satisfy the requirements of the Code, the Act, or other applicable federal or state law. Unless sooner terminated as provided elsewhere in this Plan, this Plan shall terminate upon the close of business on the day next preceding the tenth (10th) anniversary of the Effective Date. Award Agreements outstanding on such date shall continue to have force and effect in accordance with the provisions thereof.

1.4 The Plan shall be governed by, and construed in accordance with, the laws of the State of Texas (except its choice-of-law provisions).

1.5 Capitalized terms shall have the meaning provided in Article II unless otherwise provided in this Plan or any related Award Agreement.

**ARTICLE II -- DEFINITIONS**

DEFINITIONS. Except where the context otherwise indicates, the following definitions apply:

2.1 "Act" means the Securities Exchange Act of 1934, as now in effect or as hereafter amended.

2.2 "Affiliate" means any parent corporation or subsidiary corporation of the Company, whether now or hereinafter existing, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.

2.3 "Award" means an award granted to a Participant in accordance with the provisions of the Plan, including, but not limited to, Stock Options, Restricted Stock, Stock Awards, Performance Shares, or any combination of the foregoing.

2.4 "Award Agreement" means the separate written agreement evidencing each Award granted to a Participant under the Plan.

2.5 "Board of Directors" or "Board" means the Board of Directors of the Company, as constituted from time to time.

2.7 "Change of Control" means (i) the adoption of a plan of merger or consolidation of the Company with any other corporation or association as a result of which the holders of the voting capital stock of the Company as a group would receive less than 50% of the voting capital stock of the surviving or resulting corporation; (ii) the

approval by the Board of Directors of an agreement providing for the sale or transfer (other than as security for obligations of the Company) of substantially all of the assets of the Company; or (iii) in the absence of a prior expression of approval by the Board of Directors, the acquisition of more than 20% of the Company's voting capital stock by any person within the meaning of Rule 13d-3 under the Act (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company).

2.8 "Code" means the Internal Revenue Code of 1986, as amended, and the regulations and interpretations promulgated thereunder.

2.9 "Committee" means a committee of two or more members of the Board appointed by the Board in accordance with Section 3.2 of the Plan.

2.10 "Common Stock" means the Company's common stock.

2.11 "Company" means Blast Energy Services, Inc., a Texas corporation.

2.12. "Consultant" means any person, including an advisor engaged by the Company or an Affiliate to render bona fide consulting or advisory services to the Company or an Affiliate, other than as an Employee, Director or Non-Employee Director.

2.13 "Director" means a member of the Board of Directors of the Company.

2.14 "Disability" means the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code.

2.15 "Effective Date" shall be the date set forth in Section 1.3 of the Plan.

2.16 "Eligible Employee" means an Eligible Person who is an Employee of the Company or any Affiliate.

2.17 "Eligible Person" means any Employee, Officer, Director, Non-Employee Director or Consultant of the Company or any Affiliate, except for instances where services are in connection with the offer or sale of securities in a capital-raising transaction, or they directly or indirectly promote or maintain a market for the Company's securities, subject to any other limitations as may be provided by the Code, the Act, or the Board. In making such determinations, the Board may take into account the nature of the services rendered by such person, his or her present and potential contribution to the Company's success, and such other factors as the Board in its discretion shall deem relevant.

2.19 "Employee" means an individual who is a common-law employee of the Company or an Affiliate including employment as an Officer. Mere service as a Director or payment of a director's fee by the Company or an Affiliate shall not be sufficient to constitute "employment" by the Company or an Affiliate.

2.20 "ERISA" means the Employee Retirement Income Security Act of 1974, as now in effect or as hereafter amended.

2.21 "Fair Market Value" means:

(a) for purposes of an Incentive Stock Option, if there is a market for the Company's stock, on a stock exchange or in an over-the-counter market, or otherwise, the Fair Market Value shall be the mean between the highest and lowest quoted selling prices on the valuation date of the Incentive Stock Option, or if there were no sales of the Company's Common Stock on the valuation date, the Fair Market Value shall be the weighted average of the means between the highest and lowest sales on the nearest date before and the nearest date after the valuation date. If a valuation pursuant to this paragraph is not available, the appropriate method described in Section 20.2031-2 of the Treasury Regulations adopted under the Code shall be used for the Fair Market Value, and

(b) for all other purposes, the mean between the highest and lowest quoted selling prices of the Common Stock (if actual sales price information on such trading day is not available, the mean between the bona

bid and asked prices on such trading day shall be used) on the trading day immediately prior to the date on which a determination is being made pursuant to this Section 2.21 (the "Mean Selling Price"), as reported by the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), or if the Common Stock is not traded on NASDAQ, the Mean Selling Price in the over-the-counter market; provided, however, that if the Common Stock is listed on a stock exchange, the Fair Market Value shall be the Mean Selling Price on such exchange; and, provided further, that if the Common Stock is not quoted or listed by any organization, the fair value of the Common Stock, as determined by the Board, whose determination shall be conclusive, shall be used. In no event shall the Fair Market Value of any share of Common Stock be less than its par value.

2.22 "Grant Date" means, as to any Award, the latest of:

(a) the date on which the Board authorizes the grant of the Award; or

(b) the date the Participant receiving the Award becomes an Employee or a Director of the Company or its Affiliate, to the extent employment status is a condition of the grant or a requirement of the Code or the Act; or

(c) such other date (later than the dates described in (a) and (b) above) as the Board may designate and as set forth in the Participant's Award Agreement.

2.23 "Immediate Family" means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law and shall include adoptive relationships.

2.24 "Incentive Stock Option" means a Stock Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and is granted under Article IV of the Plan and designated as an Incentive Stock Option in a Participant's Award Agreement.

2.25 "Non-Employee Director" shall have the meaning set forth in Rule 16b-3 under the Act.

2.26 "Nonqualified Stock Option" means a Stock Option not intended to qualify as an Incentive Stock Option and is not so designated in the Participant's Award Agreement.

2.27 "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Act.

2.28 "Option Period" means the period during which a Stock Option may be exercised from time to time, as established by the Board and set forth in the Award Agreement for each Participant who is granted a Stock Option.

2.29 "Option Price" means the purchase price for a share of Common Stock subject to purchase pursuant to a Stock Option, as established by the Board and set forth in the Award Agreement for each Participant who is granted a Stock Option.

2.30 "Outside Director" means a Director who either (i) is not a current employee of the Company or an "affiliated corporation" (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an "affiliated corporation" receiving compensation for prior services (other than benefits under a tax qualified pension plan), was not an officer of the Company or an "affiliated corporation" at any time and is not currently receiving direct or indirect remuneration from the Company or an "affiliated corporation" for services in any capacity other than as a Director or (ii) is otherwise considered an "outside director" for purposes of Section 162(m) of the Code.

2.31 "Participant" means an Eligible Person to whom an Award has been granted and who has entered into an Award Agreement evidencing the Award or, if applicable, such other person who holds an outstanding Award.

2.32 "Performance Objectives" shall have the meaning set forth in Article IX of the Plan.

2.33 "Performance Period" shall have the meaning set forth in Article IX of the Plan.

2.34 "Performance Share" means an Award under Article IX of the Plan of a unit valued by reference to the Common Stock, the payout of which is subject to achievement of such Performance Objectives, measured during one or more Performance Periods, as the Board, in its sole discretion, shall establish at the time of such Award and set forth in a Participant's Award Agreement.

2.35 "Plan" means this Blast Energy Services, Inc. 2009 Stock Incentive Plan, as it may be amended from time to time.

2.36 "Reporting Person" means a person required to file reports under Section 16(a) of the Act.

2.37 "Restricted Stock" means an Award under Article VII of the Plan of shares of Common Stock that are at the time of the Award subject to restrictions or limitations as to the Participant's ability to sell, transfer, pledge or assign such shares, which restrictions or limitations may lapse separately or in combination at such time or times, in installments or otherwise, as the Board, in its sole discretion, shall determine at the time of such Award and set forth in a Participant's Award Agreement.

2.38 "Restriction Period" means the period commencing on the Grant Date with respect to such shares of Restricted Stock and ending on such date as the Board, in its sole discretion, shall establish and set forth in a Participant's Award Agreement.

2.39 "Retirement" means retirement as determined under procedures established by the Board or in any Award, as set forth in a Participant's Award Agreement.

2.40 "Rule 16b-3" means Rule 16b-3 promulgated under the Act or any successor to Rule 16b-3, as in effect from time to time. Those provisions of the Plan which make express reference to Rule 16b-3, or which are required in order for certain option transactions to qualify for exemption under Rule 16b-3, shall apply only to a Reporting Person.

2.41 "Stock Award" means an Award of shares of Common Stock under Article VIII of the Plan.

2.42 "Stock Option" means an Award under Article IV or Article V of the Plan of an option to purchase Common Stock. A Stock Option may be either an Incentive Stock Option or a Nonqualified Stock Option.

2.43 "Ten Percent Stockholder" means an individual who owns (or is deemed to own pursuant to Section 424(d) of the Code), at the time of grant, stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any of its Affiliates.

2.44 "Termination of Service" means (i) in the case of an Eligible Employee, the discontinuance of employment of such Participant with the Company or its Subsidiaries for any reason other than a transfer to another member of the group consisting of the Company and its Affiliates and (ii) in the case of a Director who is not an Employee of the Company or any Affiliate, the date such Participant ceases to serve as a Director. The determination of whether a Participant has discontinued service shall be made by the Board in its sole discretion. In determining whether a Termination of Service has occurred, the Board may provide that service as a Consultant or service with a business enterprise in which the Company has a significant ownership interest shall be treated as employment with the Company.

### **ARTICLE III – ADMINISTRATION**

3.1 The Plan shall be administered by the Board of Directors of the Company. The Board shall have the exclusive right to interpret and construe the Plan, to select the Eligible Persons who shall receive an Award, and to act in all matters pertaining to the grant of an Award and the determination and interpretation of the provisions of the related Award Agreement, including, without limitation, the determination of the number of shares subject to Stock Options and the Option Period(s) and Option Price(s) thereof, the number of shares of Restricted Stock or

shares subject to Stock Awards or Performance Shares subject to an Award, the vesting periods (if any) and the form, terms, conditions and duration of each Award, and any amendment thereof consistent with the provisions of the Plan. The Board may adopt, establish, amend and rescind such rules, regulations and procedures as it may deem appropriate for the proper administration of the Plan, make all other determinations which are, in the Board's judgment, necessary or desirable for the proper administration of the Plan, amend the Plan or a Stock Award as provided in Article XI, and terminate or suspend the Plan as provided in Article XI. All acts, determinations and decisions of the Board made or taken pursuant to the Plan or with respect to any questions arising in connection with the administration and interpretation of the Plan or any Award Agreement, including the severability of any and all of the provisions thereof, shall be conclusive, final and binding upon all persons.

3.2 The Board may, to the full extent permitted by and consistent with applicable law and the Company's Bylaws, and subject to Subparagraph 3.2(b) hereinbelow, delegate any or all of its powers with respect to the administration of the Plan to a Committee consisting of not fewer than two members of the Board each of whom shall qualify (at the time of appointment to the Committee and during all periods of service on the Committee) in all respects as a Non-Employee Director and as an Outside Director.

(a) If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in the Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not consistent with the provisions of the Plan, as may be adopted from time to time by the Board.

(b) The Board may abolish the Committee at any time and reassume all powers and authority previously delegated to the Committee.

(c) In addition to, and not in limitation of, the right of any Committee so designated by the Board to administer this Plan to grant Awards to Eligible Persons under this Plan, the full Board of Directors may from time to time grant Awards to Eligible Persons pursuant to the terms and conditions of this Plan, subject to the requirements of the Code, Rule 16b-3 under the Act or any other applicable law, rule or regulation. In connection with any such grants, the Board of Directors shall have all of the power and authority of the Committee to determine the Eligible Persons to whom such Awards shall be granted and the other terms and conditions of such Awards.

3.3 Without limiting the provisions of this Article III, and subject to the provisions of Article X, the Board is authorized to take such action as it determines to be necessary or advisable, and fair and equitable to Participants and to the Company, with respect to an outstanding Award in the event of a Change of Control as described in Article X or other similar event. Such action may include, but shall not be limited to, establishing, amending or waiving the form, terms, conditions and duration of an Award and the related Award Agreement, so as to provide for earlier, later, extended or additional times for exercise or payments, differing methods for calculating payments, alternate forms and amounts of payment, an accelerated release of restrictions or other modifications. The Board may take such actions pursuant to this Section 3.3 by adopting rules and regulations of general applicability to all Participants or to certain categories of Participants, by including, amending or waiving terms and conditions in an Award and the related Award Agreement, or by taking action with respect to individual Participants from time to time.

3.4 Subject to the provisions of Section 3.9 and Section 3.4(a), the initial maximum aggregate number of shares of Common Stock which may be issued pursuant to Awards under the Plan shall be 5,000,000 shares. Such shares of Common Stock shall be made available from authorized and unissued shares of the Company.

(a) The number of shares available for issuance under the Plan will be increased on the first day of each Fiscal Year beginning with the Company's 2010 Fiscal Year, in an amount equal to the greater of (i) 2,000,000 shares; or (ii) three percent (3%) of the number of issued and outstanding shares of the Company's Common Stock as reported on the Company's shareholders list as prepared by the Company's Transfer Agent on the first day of such Fiscal Year. For the purposes of this Section, the Company's "Fiscal Year" shall be defined as the twelve month accounting period which the Company has designated for its public accounting purposes, which shall initially be the period from January 1 to December 31, and shall thereafter be such Fiscal Year as the Company shall

adopt from time to time.

(b) For all purposes under the Plan, each Performance Share awarded shall be counted as one share of Common Stock subject to an Award.

(c) If, for any reason, any shares of Common Stock (including shares of Common Stock subject to Performance Shares) that have been awarded or are subject to issuance or purchase pursuant to Awards outstanding under the Plan are not delivered or purchased, or are reacquired by the Company, for any reason, including but not limited to a forfeiture of Restricted Stock or failure to earn Performance Shares or the termination, expiration or cancellation of a Stock Option, or any other termination of an Award without payment being made in the form of shares of Common Stock (whether or not Restricted Stock), such shares of Common Stock shall not be charged against the aggregate number of shares of Common Stock available for Award under the Plan and shall again be available for Awards under the Plan. In no event, however, may Common Stock that is surrendered or withheld to pay the exercise price of a Stock Option or to satisfy tax withholding requirements be available for future grants under the Plan.

(d) The foregoing subsections (a) and (c) of this Section 3.4 shall be subject to any limitations provided by the Code or by Rule 16b-3 under the Act or by any other applicable law, rule or regulation.

3.5 Each Award granted under the Plan shall be evidenced by a written Award Agreement, which shall be subject to and shall incorporate (by reference or otherwise) the applicable terms and conditions of the Plan and shall include any other terms and conditions (not inconsistent with the Plan) required by the Board.

3.6 The Company shall not be required to issue or deliver any certificates for shares of Common Stock under the Plan prior to:

(a) any required approval of the Plan by the shareholders of the Company; and

(b) the completion of any registration or qualification of such shares of Common Stock under any federal or state law, or any ruling or regulation of any governmental body that the Company shall, in its sole discretion, determine to be necessary or advisable.

3.7 The Board may require any Participant acquiring shares of Common Stock pursuant to any Award under the Plan to represent to and agree with the Company in writing that such person is acquiring the shares of Common Stock for investment purposes and without a view to resale or distribution thereof. Shares of Common Stock issued and delivered under the Plan shall also be subject to such stop-transfer orders and other restrictions as the Board may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed and any applicable federal or state laws, and the Board may cause a legend or legends to be placed on the certificate or certificates representing any such shares to make appropriate reference to any such restrictions. In making such determination, the Board may rely upon an opinion of counsel for the Company.

3.8 Except as otherwise expressly provided in the Plan or in an Award Agreement with respect to an Award, no Participant shall have any right as a shareholder of the Company with respect to any shares of Common Stock subject to such Participant's Award except to the extent that, and until, one or more certificates representing such shares of Common Stock shall have been delivered to the Participant. No shares shall be required to be issued, and no certificates shall be required to be delivered, under the Plan unless and until all of the terms and conditions applicable to such Award shall have, in the sole discretion of the Board, been satisfied in full and any restrictions shall have lapsed in full, and unless and until all of the requirements of law and of all regulatory bodies having jurisdiction over the offer and sale, or issuance and delivery, of the shares shall have been fully complied with.

3.9 The total amount of shares with respect to which Awards may be granted under the Plan and rights of outstanding Awards (both as to the number of shares subject to the outstanding Awards and the Option Price(s) or other purchase price(s) of such shares, as applicable) shall be appropriately adjusted for any increase or decrease in the number of outstanding shares of Common Stock of the Company resulting from payment of a stock dividend on the Common Stock, a stock split or subdivision or combination of shares of the Common Stock, or a reorganization

or reclassification of the Common Stock, or any other change in the structure of shares of the Common Stock. The foregoing adjustments and the manner of application of the foregoing provisions shall be determined by the Board in its sole discretion. Any such adjustment may provide for the elimination of any fractional shares which might otherwise become subject to an Award. All adjustments made as the result of the foregoing in respect of each Incentive Stock Option shall be made so that such Incentive Stock Option shall continue to be an Incentive Stock Option, as defined in Section 422 of the Code.

3.10 No director or person acting pursuant to authority delegated by the Board shall be liable for any action or determination under the Plan made in good faith. The members of the Board shall be entitled to indemnification by the Company in the manner and to the extent set forth in the Company's Articles of Incorporation, as amended, Bylaws or as otherwise provided from time to time regarding indemnification of Directors.

3.11 The Board shall be authorized to make adjustments in any performance based criteria or in the other terms and conditions of outstanding Awards in recognition of unusual or nonrecurring events affecting the Company (or any Affiliate, if applicable) or its financial statements or changes in applicable laws, regulations or accounting principles. The Board may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award Agreement in the manner and to the extent it shall deem necessary or desirable to reflect any such adjustment. In the event the Company (or any Affiliate, if applicable) shall assume outstanding employee benefit awards or the right or obligation to make future such awards in connection with the acquisition of another corporation or business entity, the Board may, in its sole discretion, make such adjustments in the terms of outstanding Awards under the Plan as it shall deem appropriate.

3.12 Subject to the express provisions of the Plan, the Board shall have full power and authority to determine whether, to what extent and under what circumstances any outstanding Award shall be terminated, canceled, forfeited or suspended. Notwithstanding the foregoing or any other provision of the Plan or an Award Agreement, all Awards to any Participant that are subject to any restriction or have not been earned or exercised in full by the Participant shall be terminated and canceled if the Participant is terminated for cause, as determined by the Board in its sole discretion.

#### **ARTICLE IV -- INCENTIVE STOCK OPTIONS**

4.1 The Board, in its sole discretion, may from time to time on or after the Effective Date grant Incentive Stock Options to Eligible Employees, subject to the provisions of this Article IV and Articles III and VI and subject to the following conditions:

(a) Incentive Stock Options shall be granted only to Eligible Employees, each of whom may be granted one or more of such Incentive Stock Options at such time or times determined by the Board.

(b) The Option Price per share of Common Stock for an Incentive Stock Option shall be set in the Award Agreement, but shall not be less than (i) one hundred percent (100%) of the Fair Market Value of the Common Stock at the Grant Date, or (ii) in the case of an Incentive Stock Option granted to a Ten Percent Stockholder, one hundred ten percent (110%) of the Fair Market Value of the Common Stock at the Grant Date.

(c) An Incentive Stock Option may be exercised in full or in part from time to time within ten (10) years from the Grant Date, or such shorter period as may be specified by the Board as the Option Period and set forth in the Award Agreement; provided, however, that, in the case of an Incentive Stock Option granted to a Ten Percent Stockholder, such period shall not exceed five (5) years from the Grant Date; and further, provided that, in any event, the Incentive Stock Option shall lapse and cease to be exercisable upon a Termination of Service or within such period following a Termination of Service as shall have been determined by the Board and set forth in the related Award Agreement; and provided, further, that such period shall not exceed the period of time ending on the date three (3) months following a Termination of Service, unless employment shall have terminated:

(i) as a result of Disability, in which event such period shall not exceed the period of time ending on the date twelve (12) months following a Termination of Service; or

(ii) as a result of death, or if death shall have occurred following a Termination of Service (other than as a result of Disability) and during the period that the Incentive Stock Option was still exercisable, in which event such period may not exceed the period of time ending on the earlier of the date twelve (12) months after the date of death;

and provided, further, that such period following a Termination of Service or death shall in no event extend beyond the original Option Period of the Incentive Stock Option.

(d) The aggregate Fair Market Value of the shares of Common Stock with respect to which any Incentive Stock Options (whether under this Plan or any other plan established by the Company) are first exercisable during any calendar year by any Eligible Employee shall not exceed one hundred thousand dollars (\$100,000), determined based on the Fair Market Value(s) of such shares as of their respective Grant Dates; provided, however, that to the extent permitted under Section 422 of the Code, if the aggregate Fair Market Values of the shares of Common Stock with respect to which Stock Options intended to be Incentive Stock Options are first exercisable by any Eligible Employee during any calendar year (whether such Stock Options are granted under this Plan or any other plan established by the Company) exceed one hundred thousand dollars (\$100,000), the Stock Options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as Nonqualified Stock Options.

(e) No Incentive Stock Options may be granted more than ten (10) years from the Effective Date.

(f) The Award Agreement for each Incentive Stock Option shall provide that the Participant shall notify the Company if such Participant sells or otherwise transfers any shares of Common Stock acquired upon exercise of the Incentive Stock Option within two (2) years of the Grant Date of such Incentive Stock Option or within one (1) year of the date such shares were acquired upon the exercise of such Incentive Stock Option.

4.2 Subject to the limitations of Section 3.4, the maximum aggregate number of shares of Common Stock subject to Incentive Stock Option Awards shall be the maximum aggregate number of shares available for Awards under the Plan.

4.3 The Board may provide for any other terms and conditions which it determines should be imposed for an Incentive Stock Option to qualify under Section 422 of the Code, as well as any other terms and conditions not inconsistent with this Article IV or Articles III or VI, as determined in its sole discretion and set forth in the Award Agreement for such Incentive Stock Option.

4.4 Each provision of this Article IV and of each Incentive Stock Option granted hereunder shall be construed in accordance with the provisions of Section 422 of the Code, and any provision hereof that cannot be so construed shall be disregarded.

## **ARTICLE V -- NONQUALIFIED STOCK OPTIONS**

5.1 The Board, in its sole discretion, may from time to time on or after the Effective Date grant Nonqualified Stock Options to Eligible Persons, subject to the provisions of this Article V and Articles III and VI and subject to the following conditions:

(a) Nonqualified Stock Options may be granted to any Eligible Person, each of whom may be granted one or more of such Nonqualified Stock Options, at such time or times determined by the Board.

(b) The Option Price per share of Common Stock for a Nonqualified Stock Option shall be set in the Award Agreement and may be less than one hundred percent (100%) of the Fair Market Value of the Common Stock at the Grant Date; provided, however, that the exercise price of each Nonqualified Stock Option granted under the Plan shall in no event be less than the par value per share of the Company's Common Stock.

(c) A Nonqualified Stock Option may be exercised in full or in part from time to time within the Option Period specified by the Board and set forth in the Award Agreement; provided, however, that, in any event, the Nonqualified Stock Option shall lapse and cease to be exercisable upon a Termination of Service or within such

period following a Termination of Service as shall have been determined by the Board and set forth in the related Award Agreement.

5.2 The Board may provide for any other terms and conditions for a Nonqualified Stock Option not inconsistent with this Article V or Articles III or VI, as determined in its sole discretion and set forth in the Award Agreement for such Nonqualified Stock Option.

#### **ARTICLE VI -- INCIDENTS OF STOCK OPTIONS**

6.1 Each Stock Option shall be granted subject to such terms and conditions, if any, not inconsistent with this Plan, as shall be determined by the Board and set forth in the related Award Agreement, including any provisions as to continued employment as consideration for the grant or exercise of such Stock Option and any provisions which may be advisable to comply with applicable laws, regulations or rulings of any governmental authority.

6.2 Except as hereinafter described, a Stock Option shall not be transferable by the Participant other than by will or by the laws of descent and distribution, and shall be exercisable during the lifetime of the Participant only by the Participant or the Participant's guardian or legal representative. In the event of the death of a Participant, any unexercised Stock Options may be exercised to the extent otherwise provided herein or in such Participant's Award Agreement by the executor or personal representative of such Participant's estate or by any person who acquired the right to exercise such Stock Options by bequest under the Participant's will or by inheritance. The Board, in its sole discretion, may at any time permit a Participant to transfer a Nonqualified Stock Option for no consideration to or for the benefit of one or more members of the Participant's Immediate Family (including, without limitation, to a trust for the benefit of the Participant and/or one or more members of such Participant's Immediate Family or a corporation, partnership or limited liability company established and controlled by the Participant and/or one or more members of such Participant's Immediate Family), subject to such limits as the Board may establish. The transferee of such Nonqualified Stock Option shall remain subject to all terms and conditions applicable to such Nonqualified Stock Option prior to such transfer. The foregoing right to transfer the Nonqualified Stock Option, if granted by the Board shall apply to the right to consent to amendments to the Award Agreement.

6.3 Shares of Common Stock purchased upon exercise of a Stock Option shall be paid for in such amounts, at such times and upon such terms as shall be determined by the Board, subject to limitations set forth in the Stock Option Award Agreement. The Board may, in its sole discretion, permit the exercise of a Stock Option by payment in cash or by tendering shares of Common Stock (either by actual delivery of such shares or by attestation), or any combination thereof, as determined by the Board. In the sole discretion of the Board, payment in shares of Common Stock also may be made with shares received upon the exercise or partial exercise of the Stock Option, whether or not involving a series of exercises or partial exercises and whether or not share certificates for such shares surrendered have been delivered to the Participant. The Board also may, in its sole discretion, permit the payment of the exercise price of a Stock Option by the voluntary surrender of all or a portion of the Stock Option. Shares of Common Stock previously held by the Participant and surrendered in payment of the Option Price of a Stock Option shall be valued for such purpose at the Fair Market Value thereof on the date the Stock Option is exercised.

6.4 The holder of a Stock Option shall have no rights as a shareholder with respect to any shares covered by the Stock Option (including, without limitation, any voting rights, the right to inspect or receive the Company's balance sheets or financial statements or any rights to receive dividends or non-cash distributions with respect to such shares) until such time as the holder has exercised the Stock Option and then only with respect to the number of shares which are the subject of the exercise. No adjustment shall be made for dividends or other rights for which the record date is prior to the date such stock certificate is issued.

6.5 The Board may permit the voluntary surrender of all or a portion of any Stock Option granted under the Plan to be conditioned upon the granting to the Participant of a new Stock Option for the same or a different number of shares of Common Stock as the Stock Option surrendered, or may require such voluntary surrender as a condition precedent to a grant of a new Stock Option to such Participant. Subject to the provisions of the Plan, such new Stock Option shall be exercisable at such Option Price, during such Option Period and on such other terms and conditions as are specified by the Board at the time the new Stock Option is granted. Upon surrender, the Stock Options surrendered shall be canceled and the shares of Common Stock previously subject to them shall be available

for the grant of other Stock Options.

6.6 The Board may at any time offer to purchase a Participant's outstanding Stock Option for a payment equal to the value of such Stock Option payable in cash, shares of Common Stock or Restricted Stock or other property upon surrender of the Participant's Stock Option, based on such terms and conditions as the Board shall establish and communicate to the Participant at the time that such offer is made.

6.7 The Board shall have the discretion, exercisable either at the time the Award is granted or at the time the Participant discontinues employment, to establish as a provision applicable to the exercise of one or more Stock Options that, during a limited period of exercisability following a Termination of Service, the Stock Option may be exercised not only with respect to the number of shares of Common Stock for which it is exercisable at the time of the Termination of Service but also with respect to one or more subsequent installments for which the Stock Option would have become exercisable had the Termination of Service not occurred.

## **ARTICLE VII -- RESTRICTED STOCK**

7.1 The Board, in its sole discretion, may from time to time on or after the Effective Date award shares of Restricted Stock to Eligible Persons as a reward for past service and an incentive for the performance of future services that will contribute materially to the successful operation of the Company and its Affiliates, subject to the terms and conditions set forth in this Article VII.

7.2 The Board shall determine the terms and conditions of any Award of Restricted Stock, which shall be set forth in the related Award Agreement, including without limitation:

(a) the purchase price, if any, to be paid for such Restricted Stock, which may be zero, subject to such minimum consideration as may be required by applicable law;

(b) the duration of the Restriction Period or Restriction Periods with respect to such Restricted Stock and whether any events may accelerate or delay the end of such Restriction Period(s);

(c) the circumstances upon which the restrictions or limitations shall lapse, and whether such restrictions or limitations shall lapse as to all shares of Restricted Stock at the end of the Restriction Period or as to a portion of the shares of Restricted Stock in installments during the Restriction Period by means of one or more vesting schedules;

(d) whether such Restricted Stock is subject to repurchase by the Company or to a right of first refusal at a predetermined price or if the Restricted Stock may be forfeited entirely under certain conditions;

(e) whether any performance goals may apply to a Restriction Period to shorten or lengthen such period; and

(f) whether dividends and other distributions with respect to such Restricted Stock are to be paid currently to the Participant or withheld by the Company for the account of the Participant.

7.3 Awards of Restricted Stock must be accepted within a period of thirty (30) days after the Grant Date (or such shorter or longer period as the Board may specify at such time) by executing an Award Agreement with respect to such Restricted Stock and tendering the purchase price, if any. A prospective recipient of an Award of Restricted Stock shall not have any rights with respect to such Award, unless such recipient has executed an Award Agreement with respect to such Restricted Stock, has delivered a fully executed copy thereof to the Board and has otherwise complied with the applicable terms and conditions of such Award.

7.4 In the sole discretion of the Board and as set forth in the Award Agreement for an Award of Restricted Stock, all shares of Restricted Stock held by a Participant and still subject to restrictions shall be forfeited by the Participant upon the Participant's Termination of Service and shall be reacquired, canceled and retired by the Company. Notwithstanding the foregoing, unless otherwise provided in an Award Agreement with respect to an Award of Restricted Stock, in the event of the death, Disability or Retirement of a Participant during the Restriction

Period, or in other cases of special circumstances (including hardship or other special circumstances of a Participant whose employment is involuntarily terminated), the Board may elect to waive in whole or in part any remaining restrictions with respect to all or any part of such Participant's Restricted Stock, if it finds that a waiver would be appropriate.

7.5 Except as otherwise provided in this Article VII, no shares of Restricted Stock received by a Participant shall be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of during the Restriction Period.

7.6 Upon an Award of Restricted Stock to a Participant, a certificate or certificates representing the shares of such Restricted Stock will be issued to and registered in the name of the Participant. Unless otherwise determined by the Board, such certificate or certificates will be held in custody by the Company until (i) the Restriction Period expires and the restrictions or limitations lapse, in which case one or more certificates representing such shares of Restricted Stock that do not bear a restrictive legend (other than any legend as required under applicable federal or state securities laws) shall be delivered to the Participant, or (ii) a prior forfeiture by the Participant of the shares of Restricted Stock subject to such Restriction Period, in which case the Company shall cause such certificate or certificates to be canceled and the shares represented thereby to be retired, all as set forth in the Participant's Award Agreement. It shall be a condition of an Award of Restricted Stock that the Participant deliver to the Company a stock power endorsed in blank relating to the shares of Restricted Stock to be held in custody by the Company.

7.7 Except as provided in this Article VII or in the related Award Agreement, a Participant receiving an Award of shares of Restricted Stock Award shall have, with respect to such shares, all rights of a shareholder of the Company, including the right to vote the shares and the right to receive any distributions, unless and until such shares are otherwise forfeited by such Participant; provided, however, the Board may require that any cash dividends with respect to such shares of Restricted Stock be automatically reinvested in additional shares of Restricted Stock subject to the same restrictions as the underlying Award, or may require that cash dividends and other distributions on Restricted Stock be withheld by the Company or its Affiliates for the account of the Participant. The Board shall determine whether interest shall be paid on amounts withheld, the rate of any such interest, and the other terms applicable to such withheld amounts.

#### **ARTICLE VIII -- STOCK AWARDS**

8.1 The Board, in its sole discretion, may from time to time on or after the Effective Date grant Stock Awards to Eligible Persons in payment of compensation that has been earned or as compensation to be earned, including without limitation compensation awarded or earned concurrently with or prior to the grant of the Stock Award, subject to the terms and conditions set forth in this Article VIII.

8.2 For the purposes of this Plan, in determining the value of a Stock Award, all shares of Common Stock subject to such Stock Award shall be set in the Award Agreement and may be less than one hundred percent (100%) of the Fair Market Value of the Common Stock at the Grant Date.

8.3 Unless otherwise determined by the Board and set forth in the related Award Agreement, shares of Common Stock subject to a Stock Award will be issued, and one or more certificates representing such shares will be delivered, to the Participant as soon as practicable following the Grant Date of such Stock Award. Upon the issuance of such shares and the delivery of one or more certificates representing such shares to the Participant, such Participant shall be and become a shareholder of the Company fully entitled to receive dividends, to vote and to exercise all other rights of a shareholder of the Company. Notwithstanding any other provision of this Plan, unless the Board expressly provides otherwise with respect to a Stock Award, as set forth in the related Award Agreement, no Stock Award shall be deemed to be an outstanding Award for purposes of the Plan.

#### **ARTICLE IX -- PERFORMANCE SHARES**

9.1 The Board, in its sole discretion, may from time to time on or after the Effective Date award Performance Shares to Eligible Persons as an incentive for the performance of future services that will contribute materially to the successful operation of the Company and its Affiliates, subject to the terms and conditions set forth in this Article IX.

9.2 The Board shall determine the terms and conditions of any Award of Performance Shares, which shall be set forth in the related Award Agreement, including without limitation:

(a) the purchase price, if any, to be paid for such Performance Shares, which may be zero, subject to such minimum consideration as may be required by applicable law;

(b) the performance period (the "Performance Period") and/or performance objectives (the "Performance Objectives") applicable to such Awards;

(c) the number of Performance Shares that shall be paid to the Participant if the applicable Performance Objectives are exceeded or met in whole or in part; and

(d) the form of settlement of a Performance Share.

9.3 At any date, each Performance Share shall have a value equal to the Fair Market Value of a share of Common Stock.

9.4 Performance Periods may overlap, and Participants may participate simultaneously with respect to Performance Shares for which different Performance Periods are prescribed.

9.5 Performance Objectives may vary from Participant to Participant and between Awards and shall be based upon such performance criteria or combination of factors as the Board may deem appropriate, including, but not limited to, minimum earnings per share or return on equity. If during the course of a Performance Period there shall occur significant events which the Board expects to have a substantial effect on the applicable Performance Objectives during such period, the Board may revise such Performance Objectives.

9.6 In the sole discretion of the Board and as set forth in the Award Agreement for an Award of Performance Shares, all Performance Shares held by a Participant and not earned shall be forfeited by the Participant upon the Participant's Termination of Service. Notwithstanding the foregoing, unless otherwise provided in an Award Agreement with respect to an Award of Performance Shares, in the event of the death, Disability or Retirement of a Participant during the applicable Performance Period, or in other cases of special circumstances (including hardship or other special circumstances of a Participant whose employment is involuntarily terminated), the Board may determine to make a payment in settlement of such Performance Shares at the end of the Performance Period, based upon the extent to which the Performance Objectives were satisfied at the end of such period and pro rated for the portion of the Performance Period during which the Participant was employed by the Company or an Affiliate; provided, however, that the Board may provide for an earlier payment in settlement of such Performance Shares in such amount and under such terms and conditions as the Board deems appropriate or desirable.

9.7 The settlement of a Performance Share shall be made in cash, whole shares of Common Stock or a combination thereof and shall be made as soon as practicable after the end of the applicable Performance Period. Notwithstanding the foregoing, the Board in its sole discretion may allow a Participant to defer payment in settlement of Performance Shares on terms and conditions approved by the Board and set forth in the related Award Agreement entered into in advance of the time of receipt or constructive receipt of payment by the Participant.

9.8 Performance Shares shall not be transferable by the Participant. The Board shall have the authority to place additional restrictions on the Performance Shares including, but not limited to, restrictions on transfer of any shares of Common Stock that are delivered to a Participant in settlement of any Performance Shares.

## **ARTICLE X -- CHANGES OF CONTROL OR OTHER FUNDAMENTAL CHANGES**

10.1 Upon the occurrence of a Change of Control and unless otherwise provided in the Award Agreement with respect to a particular Award:

(a) all outstanding Stock Options shall become immediately exercisable in full, subject to any

appropriate adjustments in the number of shares subject to the Stock Option and the Option Price, and shall remain exercisable for the remaining Option Period, regardless of any provision in the related Award Agreement limiting the exercisability of such Stock Option or any portion thereof for any length of time;

(b) all outstanding Performance Shares with respect to which the applicable Performance Period has not been completed shall be paid out as soon as practicable as follows:

(i) all Performance Objectives applicable to the Award of Performance Shares shall be deemed to have been satisfied to the extent necessary to earn one hundred percent (100%) of the Performance Shares covered by the Award;

(ii) the applicable Performance Period shall be deemed to have been completed upon occurrence of the Change of Control;

(iii) the payment to the Participant in settlement of the Performance Shares shall be the amount determined by the Board, in its sole discretion, or in the manner stated in the Award Agreement, as multiplied by a fraction, the numerator of which is the number of full calendar months of the applicable Performance Period that have elapsed prior to occurrence of the Change of Control, and the denominator of which is the total number of months in the original Performance Period; and

(iv) upon the making of any such payment, the Award Agreement as to which it relates shall be deemed terminated and of no further force and effect.

(c) all outstanding shares of Restricted Stock with respect to which the restrictions have not lapsed shall be deemed vested, and all such restrictions shall be deemed lapsed and the Restriction Period ended.

10.2 Anything contained herein to the contrary notwithstanding, upon the dissolution or liquidation of the Company, each Award granted under the Plan and then outstanding shall terminate; provided, however, that following the adoption of a plan of dissolution or liquidation, and in any event prior to the effective date of such dissolution or liquidation, each such outstanding Award granted hereunder shall be exercisable in full and all restrictions shall lapse, to the extent set forth in Section 10.1(a), (b) and (c) above.

10.3 After the merger of one or more corporations into the Company or any Affiliate, any merger of the Company into another corporation, any consolidation of the Company or any Affiliate of the Company and one or more corporations, or any other corporate reorganization of any form involving the Company as a party thereto and involving any exchange, conversion, adjustment or other modification of the outstanding shares of the Common Stock, each Participant shall, at no additional cost, be entitled, upon any exercise of such Participant's Stock Option, to receive, in lieu of the number of shares as to which such Stock Option shall then be so exercised, the number and class of shares of stock or other securities or such other property to which such Participant would have been entitled to pursuant to the terms of the agreement of merger or consolidation or reorganization, if at the time of such merger or consolidation or reorganization, such Participant had been a holder of record of a number of shares of Common Stock equal to the number of shares as to which such Stock Option shall then be so exercised. Comparable rights shall accrue to each Participant in the event of successive mergers, consolidations or reorganizations of the character described above. The Board may, in its sole discretion, provide for similar adjustments upon the occurrence of such events with regard to other outstanding Awards under this Plan. The foregoing adjustments and the manner of application of the foregoing provisions shall be determined by the Board in its sole discretion. Any such adjustment may provide for the elimination of any fractional shares which might otherwise become subject to an Award. All adjustments made as the result of the foregoing in respect of each Incentive Stock Option shall be made so that such Incentive Stock Option shall continue to be an Incentive Stock Option, as defined in Section 422 of the Code.

## **ARTICLE XI -- AMENDMENT AND TERMINATION**

11.1 Subject to the provisions of Section 11.2, the Board of Directors at any time and from time to time may amend or terminate the Plan as may be necessary or desirable to implement or discontinue the Plan or any provision hereof. To the extent required by the Act or the Code, however, no amendment, without approval by the Company's shareholders, shall:

(a) materially alter the group of persons eligible to participate in the Plan;

(b) except as provided in Section 3.4, change the maximum aggregate number of shares of Common Stock that are available for Awards under the Plan;

(c) alter the class of individuals eligible to receive an Incentive Stock Option or increase the limit on Incentive Stock Options set forth in Section 4.1(d) or the value of shares of Common Stock for which an Eligible Employee may be granted an Incentive Stock Option.

11.2 No amendment to or discontinuance of the Plan or any provision hereof by the Board of Directors or the shareholders of the Company shall, without the written consent of the Participant, adversely affect (in the sole discretion of the Board) any Award theretofore granted to such Participant under this Plan; provided, however, that the Board retains the right and power to:

(a) annul any Award if the Participant is terminated for cause as determined by the Board; and

(b) convert any outstanding Incentive Stock Option to a Nonqualified Stock Option.

11.3 If a Change of Control has occurred, no amendment or termination shall impair the rights of any person with respect to an outstanding Award as provided in Article X.

## **ARTICLE XII -- MISCELLANEOUS PROVISIONS**

12.1 Nothing in the Plan or any Award granted hereunder shall confer upon any Participant any right to continue in the employ of the Company or its Affiliates or to serve as a Director or shall interfere in any way with the right of the Company or its Affiliates or the shareholders of the Company, as applicable, to terminate the employment of a Participant or to release or remove a Director at any time. Unless specifically provided otherwise, no Award granted under the Plan shall be deemed salary or compensation for the purpose of computing benefits under any employee benefit plan or other arrangement of the Company or its Affiliates for the benefit of their respective employees unless the Company shall determine otherwise. No Participant shall have any claim to an Award until it is actually granted under the Plan and an Award Agreement has been executed and delivered to the Company. To the extent that any person acquires a right to receive payments from the Company under the Plan, such right shall, except as otherwise provided by the Board, be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder shall be paid from the general funds of the Company, and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts, except as provided in Article VII with respect to Restricted Stock and except as otherwise provided by the Board.

12.2 The Plan and the grant of Awards shall be subject to all applicable federal and state laws, rules, and regulations and to such approvals by any government or regulatory agency as may be required. Any provision herein relating to compliance with Rule 16b-3 under the Act shall not be applicable with respect to participation in the Plan by Participants who are not subject to Section 16 of the Act.

12.3 The terms of the Plan shall be binding upon the Company, its successors and assigns.

12.4 Neither a Stock Option nor any other type of equity-based compensation provided for hereunder shall be transferable except as provided for in Section 6.2. In addition to the transfer restrictions otherwise contained herein, additional transfer restrictions shall apply to the extent required by federal or state securities laws. If any Participant makes such a transfer in violation hereof, any obligation hereunder of the Company to such Participant shall terminate immediately.

12.5 This Plan and all actions taken hereunder shall be governed by the laws of the State of Texas.

12.6 Each Participant exercising an Award hereunder agrees to give the Board prompt written notice of any election made by such Participant under Section 83(b) of the Code, or any similar provision thereof.

12.7 If any provision of this Plan or an Award Agreement is or becomes or is deemed invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or any Award Agreement under any law deemed applicable by the Board, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Board, materially altering the intent of the Plan or the Award Agreement, it shall be stricken, and the remainder of the Plan or the Award Agreement shall remain in full force and effect.

12.8 The grant of an Award pursuant to this Plan shall not affect in any way the right or power of the Company or any of its Affiliates to make adjustments, reclassification, reorganizations, or changes of its capital or business structure, or to merge or consolidate, or to dissolve, liquidate or sell, or to transfer all or part of its business or assets.

12.9 The Plan is not subject to the provisions of ERISA or qualified under Section 401(a) of the Code.

12.10 If a Participant is required to pay to the Company an amount with respect to income and employment tax withholding obligations in connection with (i) the exercise of a Nonqualified Stock Option, (ii) certain dispositions of Common Stock acquired upon the exercise of an Incentive Stock Option, or (iii) the receipt of Common Stock pursuant to any other Award, then the issuance of Common Stock to such Participant shall not be made (or the transfer of shares by such Participant shall not be required to be effected, as applicable) unless such withholding tax or other withholding liabilities shall have been satisfied in a manner acceptable to the Company. To the extent provided by the terms of an Award Agreement, the Participant may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of Common Stock under an Award by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (i) tendering a cash payment; (ii) authorizing the Company to withhold shares of Common Stock from the shares of Common Stock otherwise issuable to the Participant as a result of the exercise or acquisition of Common Stock under the Award, provided, however, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law; or (iii) delivering to the Company owned and unencumbered shares of Common Stock.