MAXIM TEP, INC
Form 10-12G/A
June 11, 2008

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549
Amendment No. 2
on
**FORM 10**

**General Form for Registration of Securities**
**Pursuant to Section 12(b) or (g) of the**
**Securities Exchange Act of 1934**

**MAXIM TEP, INC.**
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Texas** | **20-0650828** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**9400 Grogan's Mill Road, Suite 205**
**The Woodlands, Texas 77380**
**www.maximtep.com**

(Address of principal executive offices)

Registrant's Telephone Number, Including Area Code: **(281) 466-1530**

Securities to be registered pursuant to Section 12(b) of the Act: **None**

Securities to be registered pursuant to Section 12(g) of the Act:

**Common Stock, par value $0.00001**
(Title of Class)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|---|---|
| Large accelerated filer o | Accelerated filer o |
| Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company x |

**MAXIM TEP, INC.**

**Table of Contents**

## Forward Looking Statements

This Registration Statement on Form 10 contains forward-looking statements concerning our beliefs, plans, objectives, goals, expectations, anticipations, estimates, intentions, operations, future results and prospects, including statements that include the words “may,” “could,” “should,” “would,” “believe,” “expect,” “will,” “shall,” “anticipate,” “esti “plan” and similar expressions. These forward-looking statements are based upon current expectations and are subject to risk, uncertainties and assumptions, including those described in this Registration Statement on Form 10. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected, projected, intended, committed or believed. We provide the following cautionary statement identifying important factors (some of which are beyond our control) which could cause the actual results or events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions.

## PART I

## ITEM 1. BUSINESS

### (A) *GENERAL*

Maxim TEP, Inc. (“Maxim” or the “Company”), is headquartered in The Woodlands, Texas, a suburb of Houston. The Company is an oil and natural gas exploration, development and production (E&P) company geographically focused on the onshore United States. The Company’s operational focus is the acquisition, through the most cost effective means possible, of production or near production of oil and natural gas field assets. Targeted fields generally have existing wells that are often past primary energy recovery, but whose enhancement through secondary and tertiary recovery methods could revitalize them. Targeted fields also have the availability of additional drilling sites. The Company seeks to have an inventory of existing wells to enhance and a number of new drilling sites to maintain growth, while increasing reserves and cash flow. Maxim uses both conventional and non-conventional methods to bring non-producing wells back into production and to minimize operational costs.

### (B) *HISTORY AND DEVELOPMENT*

During October of 2003, the founders conceived a business plan and named the Company Maxim Energy, Inc. On September 23, 2004 Maxim Energy, Inc. merged into Maxim TEP, Inc., a Texas corporation, which resulted in Maxim TEP, Inc. as the surviving entity headquartered in The Woodlands, Texas. The founders began to acquire oil and natural gas properties during 2004 with its first acquisition being a property in Oklahoma. Acquisition of properties continued in 2005 and 2006 and the Company now owns fields in Louisiana, Arkansas, Kentucky and New Mexico.

The Company has a three phases of development:

§ Phase One – Acquisition Phase: Acquire property and oil and natural gas leases as budgets would allow while carefully selecting targeted properties that met the Company’s long range objectives.

§ Phase Two – Development Phase: Drill development wells in careful “step outs” from known reserve areas to raise likelihood of productive new wells and enhance existing wells with secondary and tertiary recovery technologies available to the Company. The goal is to drill, complete and produce as much oil and natural gas as possible thereby increasing proved reserves and cash flows so as to support Phase Three.

§ Phase Three – Expansion Phase: During this phase, the Company would continue to expand and replace production that it is selling into the market, offset historic decreases in production and monetize fields at appreciated values from their original purchase price.

***Phase One – Acquisition Phase***

The Company's fundamental belief was premised on the proposition that oil prices would increase because world supplies were diminishing while worldwide demand was increasing. The founders are believers in "Peak Oil," a belief that recognizes that since the production and extraction of oil and natural gas has grown almost every year and (It is currently at about 84 million barrels a day) production is likely to start a decline so we will have "peaked," a theory first espoused by M. King Hubbert in the 1950's who predicted the peak to occur between 1965-1970 and actually did occur in the lower 48 states in 1970-1971. Mr. Hubbert believed in the 1950's, the world would use more than half its supply in the near future, then the industry would shift from a buyers' market to a sellers' market since oil production would more than likely stop growing and start a decline. The founders held that this decline would lead to higher prices and attention towards secondary and tertiary oil and gas recovery from older fields. By acquiring fields first, the belief was that prices would be lower than when the market realized the importance of older fields. Hence, many oil and natural gas fields were inexpensive as they were not economical, given the then-oil-and-gas prices. Nevertheless, these fields could become economical if oil and natural gas prices rose, giving the owner the potential to eventually monetize at higher energy prices.

The Company sought financing for its Phase One. Maxim secured initial funding from several accredited investors, and set out to acquire fields, and now currently owns the rights to oil and natural gas leases in Kentucky, Louisiana, Arkansas and New Mexico.

In buying existing oil and natural gas fields, the Company set out to extensively study the fields, the formations in which oil and natural gas were found, the history of sales from the field and the history of all surrounding fields, and their production. From this information, a better assessment could be made as to the value of the target property.

***Phase Two – Development Phase***

Phase Two is the monetization of the Company's fields through secondary and tertiary recovery methods in existing wells, as well as the development through drilling of the undeveloped acreage that exist in its fields. The Company has the availability to workover over 530 wells through secondary and tertiary advanced stimulation methods. The Company also believes it has at least 2,159 drillable sites across all of its fields. This phase is highly dependent on the Company's ability to secure funding from debt and equity sources.

Currently, the Company has active drilling, completion and operations on several of its fields located in Kentucky, Arkansas and Louisiana. The Company has 515 small productive natural gas wells in its Marion field in Louisiana that it received from the purchase of this field along with over 110 miles of natural gas gathering pipeline. It has plans to repair or put in place new pipeline to more efficiently capture additional natural gas from these existing wells. The Company began an eight-well drilling program in its Belton Field in Kentucky, resulting in three gas wells, three oil wells and one water well (for disposal purposes). The eighth well has not yet been drilled. The drilled wells are in different stages of completion. First production began in the fourth quarter of 2007. The Company has begun a workover program on existing wells in its Days Creek Field in Arkansas. The Company began four wells of a six-well drilling program in its Stephens Field in Arkansas, of which two are in production. Lastly, the Company has twelve oil wells in the Delhi Field in Louisiana and is beginning an active well workover program on them.

The Company initiated its Phase Two drilling and work-over program in late 2006 and early 2007. In 2008-09, Maxim intends to drill or enhance a total of 40 wells should it receive adequate funding.

In 2008-09 the Company plans to: work-over and enhance 10 existing oil wells and one injection well in the Days Creek Field; drill seven new wells in the Days Creek Field; workover 12 oil wells and four injection wells in Delhi Field; drill an injection well in the Belton Field; drill four wells in the deeper zone of the Stephens Field; and to complete one shallow well already drilled in the Stephens Field. While there are no assurances of success with all new wells, it is anticipated that this drilling plan, coupled with well enhancements in Marion and Delhi, could contribute significant additional production by December 2008.

The following table sets forth the Company's 2008-09 planned oil and injection wells to drill or enhance.

| | Wells Planned to Drill or Enhance in 2008-09 | Active Wells December 2007 |
|---|---|---|
| Marion–Louisiana | — | 476 |
| Days Creek–Arkansas | 18 | 4 |
| Delhi–Louisiana | 16 | — |
| Belton–Kentucky | 1 | 2 |
| South Belridge–California (sold in 2008) | — | 9 |
| Stephens (Deep)–Arkansas | 4 | 2 |
| Stephens (Jones)–Arkansas | 1 | — |
| Total | 40 | 493 |

All of the planned drilling and enhancements assume that the Company is successful in securing its 2008 funding that will support a drilling and development budget of approximately $12.4 million. The actual number of wells drilled will vary depending upon various factors, including the availability and cost of drilling rigs, any working interest partner issues, our ability to raise additional capital, the success of our drilling programs, weather delays and other factors. If we drill the number of wells we have budgeted for 2008-09, depreciation, depletion and amortization, oil and natural gas operating expenses and production are expected to increase over levels incurred in 2007. Our ability to drill this number of wells is heavily dependent upon the timely access to oilfield services, particularly drilling rigs. The shortage of available rigs and financing in 2007 delayed the drilling and enhancement of several planned wells, slowing our growth in production. Due to limited funding, as of May 2008, the Company has only partially begun these planned 2008 activities and foresees the plan to extend into 2009, if funding is obtained.

***Phase Three – Expansion Phase***

In the Phase Three development of the Company, an effort will be made to replace the oil and natural gas reserves currently being developed in fields operated by the Company. Monetizing fields through the creation of Master Limited Partnerships (“MLP”) is also an option that offers cash flow to investors and the Company. With the enhanced oil recovery (“EOR”) methods available to the Company there are fields that it can acquire, either for development of reserves, enhancement, or monetization through resale. See EOR discussed in more detail on Page 7.

**(C)** ***DESCRIPTION OF FIELDS***

The following table sets forth certain information regarding our developed and undeveloped lease acreage as of December 31, 2007. “Developed Acreage” refers to acreage on which wells have been drilled or completed to a point that would permit production of oil and natural gas in commercial quantities. “Undeveloped Acreage” refers to acreage on which wells have not been drilled or completed to a point that would permit production of oil and natural gas in commercial quantities whether or not the acreage contains proved reserves.

| | 2007 Production BOE | 12/31/2007 Proved Reserves-BOE | Average Working Interest | Developed Acreage Gross | Developed Acreage Net | Undeveloped Acreage Gross | Undeveloped Acreage Net | Total Acreage Gross | Total Acreage Net |
|---|---|---|---|---|---|---|---|---|---|
| Marion–LA | 36,627 | 298,025 | 100.00% | 10,300 | 10,300 | 11,200 | 11,200 | 21,500 | 21,500 |
| Days Creek–AR | 7,246 | 551,959 | 85.00% | 480 | 408 | 260 | 221 | 740 | 629 |
| Delhi–LA | 5,203 | 1,976,170 | 95.77% | 520 | 498 | 880 | 843 | 1,400 | 1,341 |
| Hospah–NM | — | — | 100.00% | — | — | 2,080 | 2,080 | 2,080 | 2,080 |
| Belton– KY | 803 | 5,580 | 100.00% | 110 | 110 | 9,215 | 9,215 | 9,325 | 9,325 |
| South Belridge–CA | 22,261 | 60,814 | 50.00% | 45 | 23 | 1,830 | 915 | 1,875 | 938 |
| Stephens (Deep)–AR | 705 | 38,170 | 24.00% | 80 | 19 | 1,034 | 248 | 1,114 | 267 |
| Stephens (Jones)–AR | — | 24,890 | 75.00% | — | — | 40 | 30 | 40 | 30 |
| Total | 72,845 | 2,955,608 | | 11,535 | 11,358 | 26,539 | 24,752 | 38,074 | 36,110 |

An element of an oil or natural gas lease is the obligation to drill upon the fields that are acquired. If the Company is not successful in securing its 2008 funding for a drilling and development budget of approximately $12.4 million, some of leases might be lost. So as to maintain its leases in the Stephens Field, six wells must be drilled by the end of 2008 or the Company will lose its rights to the undeveloped acres. The Company has already drilled four of these wells. The South Belridge Field lease carries a 10 well per year drilling commitment or the remaining undeveloped acres could be lost, but the Company’s working interest partner and the operator has been complying with this commitment even without the Company’s contribution. In that scenario, the Company only forfeits the well spacing acres of any wells in which it chooses to go non-consent. The Marion Field, Days Creek Field, and Delhi Field do not have any future drilling commitments and current production is sufficient to maintain those leases. The Company is the mineral interest owner in its initial 3,008 acres of the Belton Field and therefore there is no drilling or production requirements on this property. During 2007, the Company has leased an additional 6,317 surrounding acres, typically under five year leases with an option to renew the lease for an additional five years for a rental fee.

A description of the Company’s producing oil and natural gas properties is as follows:

**Marion Field (Monroe Gas Field), Louisiana**

The Company purchased this approximately 21,500 acre natural gas field in December 2005 which included a pipeline and operational equipment.

- Wells: 476 currently producing though existing pipeline needs modernization and enhancement
- The Company currently has a 100% working interest (“WI”) and an average net revenue interest (“NRI”) of 76%
- Natural gas production from the Arkadelphia zone
- Strategic plan initiated for natural gas field workover program to increase production revenue, and pipeline replacement/repair program to handle increased production of natural gas
- Developing strategic plan for exploration and development of deeper prospective pay zones

**Days Creek Field, Arkansas**

In November 2006, the Company purchased approximately 740 acres in Miller County Arkansas using $400,000 in cash and three convertible notes in an aggregate principal amount of $6.0 million, which notes are convertible into an aggregate of 8,000,000 shares of common stock.

- Wells: 13 existing wells with ten planned workovers
- The Company currently has a 85% WI and a 57.25% NRI
- There are four actively operating oil and natural gas wells in the Smackover Zone
- Developing strategic plan for additional in-field drilling and development

**Delhi Field, Louisiana**

The Company purchased an approximately 1,400 acre lease in December 2006 that is a water injection oil field.

- Proved oil reserves in the Mengel Sands
- Wells: 12 productive wells are in place and completed
- The Company currently has a 95.77% WI and a 82.67% NRI
- Active well workover program on existing oil wells
- Developing strategic plan for implementation of waterflood program

**Hospah, Lone Pine & Clovis Oil and Natural Gas Fields, New Mexico**

Over the course of two years, the Company has negotiated and continues to negotiate the purchase of acreage in New Mexico. We currently have acquired leases to 2,080 acres in Hospah while working towards leasing more acreage near Clovis, New Mexico in McKinley County.

- The Company has a 100% WI and an 73.3% NRI on its first 2,080 acres in Hospah
- Oil and natural gas production since 1927 from the Hospah Sandstones reservoir located on the field have yielded nearly 22 million barrels of oil and nearly 53 bcf of gas through 2005

**Belton Field, Kentucky**

The Belton Field was the Company’s first acquisition in April of 2004, acquiring 3,008 acres initially and since that time the Company has leased an additional 6,317 surrounding acreage, all located in Muhlenberg County, Kentucky.

- Wells: three oil wells and three natural gas wells are newly drilled and in various stages of completion with one additional well not yet drilled
- The Company currently has a 100% WI and an approximate 79.6% NRI
- A drilling program is nearly completed to develop shallow reserves and explore for deeper productive oil and natural gas pay zones

**South Belridge Field, California**

The Company negotiated a joint operating agreement ("JOA") with Orchard Petroleum, Inc. in February 2005 on a prospect of approximately 960 acres in Kern County, California. The Company spent a total of $1.72 million for the opportunity to buy into this project with Orchard for a 75% working interest of Orchard's 75% interest. In addition, the Company was obligated to pay for the first $28.5 million in capital expenditures (CAPEX) to drill wells, later reduced to $23.5 million for a 50% working interest. In support of Orchard's drilling operations, the Company invested the $23.5 million on wells drilled in the South Belridge field for a total investment of $25.2 million including the initial $1.72 million buy in. In early 2007, the Company paid $500,000 for a 50% working interest in 600 acres of section 18 which is adjacent to the original 960 acre prospect. The Company sold this property in April 2008 to reduce outstanding debt.

**Stephens Field, Arkansas**

The Company purchased rights to approximately 1,114 acres in Columbia County, Arkansas in December 2006. The Company also bought into the single well in Lafayette County, Arkansas, the Jones #1 well, in 2007.

- Wells: five wells drilled and two of those wells are completed
- The Company currently has a 24% WI and a 16.5% NRI at depths of 2,500 feet and deeper
- The Company currently has a 75% WI and a 45.75% NRI in the Jones #1 well

**(D) *OIL AND NATURAL GAS OPERATIONS, PRODUCTION AND DEVELOPMENT***

**Volumes, Prices and Oil & Natural Gas Operating Expense**

The following table sets forth certain information regarding the production volumes of, average sales prices received for and average production costs associated with our sales of oil and natural gas for the periods indicated.

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | | **2007** | | **2006** |
| Production volumes: | | | | |
| Oil (Bbls) | | 23,880 | | 16,167 |
| Natural gas (Mcf) | | 293,788 | | 313,585 |
| Barrel of oil equivalent (BOE) | | 72,845 | | 68,431 |
| | | | | |
| Average sales prices: | | | | |
| Oil (per Bbl) | $ | 71.77 | $ | 62.57 |
| Natural gas (per Mcf) | $ | 6.20 | $ | 6.27 |
| Barrel of oil equivalent (per BOE) | $ | 48.54 | $ | 43.54 |
| | | | | |
| Average costs (per BOE) *(1)* | $ | 43.36 | $ | 30.91 |

*(1) Includes direct lifting costs (labor, repairs and maintenance, materials and supplies), workover costs and the administrative costs of production offices, insurance and property and severance taxes.*

**Oil and Natural Gas Reserves**

The reserves as of December 31, 2007 were derived from reserve estimates prepared by the independent reserve engineers; Aluko & Associates, Inc. for the Delhi Field and the South Belridge Field, Haas Petroleum Engineering Services, Inc. for the Belton Field and the Stephens Field, Netherland, Sewell & Associates, Inc. for the Marion Field, and Lee Keeling and Associates, Inc. for the Days Creek Field. No reserve reports were provided to any government agency. The PV-10 value was derived using constant prices as of the calculation date, discounted at 10% per annum on a pretax basis, and is not intended to represent the current market value of the estimated oil and natural gas reserves owned by the Company. For further information concerning the present value of future net revenues from these proved reserves, see Note 14 of notes to Consolidated Financial Statements.

The following table sets forth our estimated net proved oil and natural gas reserves and the PV-10 value of such reserves as of December 31, 2007.

| | Proved Reserves | | |
|---|---|---|---|
| | **Developed** | **Undeveloped** | **Total** |
| Oil and condensate (Bbls) | 143,806 | 2,480,489 | 2,624,295 |
| Natural gas (Mcf) | 1,987,875 | — | 1,987,875 |
| Total proved reserves (BOE) | 475,119 | 2,480,489 | 2,955,608 |
| PV-10 Value *(1)(2)* | $ 4,845,085 | $ 100,019,176 | $ 104,864,261 |

*(1) The PV-10 value as of December 31, 2007 is pre-tax and was determined by using the December 31, 2007 sales prices, which averaged $92.79 per Bbl of oil, $6.46 per Mcf of natural gas. Management believes that the presentation of PV-10 value may be considered a non-GAAP financial measure. Therefore we have included a reconciliation of the measure to the most directly comparable GAAP financial measure (standardized measure of discounted future net cash flows in footnote (2) below). Management believes that the presentation of PV-10 value provides useful information to investors because it is widely used by professional analysts and sophisticated investors in evaluating oil and natural gas companies. Because many factors that are unique to each individual Company may impact the amount of future income taxes to be paid, the use of the pre-tax measure provides greater comparability when evaluating companies. It is relevant and useful to investors for evaluating the relative monetary significance of our oil and natural gas properties. Further, investors may utilize the measure as a basis for comparison of the relative size and value of our reserves to other companies.*

*Management also uses this pre-tax measure when assessing the potential return on investment related to its oil and natural gas properties and in evaluating acquisition candidates. The PV-10 value is not a measure of financial or operating performance under GAAP, nor is it intended to represent the current market value of the estimated oil and natural gas reserves owned by us. The PV-10 value should not be considered in isolation or as a substitute for the standardized measure of discounted future net cash flows as defined under GAAP.*

*(2) Future income taxes and present value discounted (10%) future income taxes were $29,301,076 and $16,026,188, respectively. Accordingly, the after-tax PV-10 value of Total Proved Reserves (or "Standardized Measure of Discounted Future Net Cash Flows") is $88,838,073.*

**Development, Exploration and Acquisition Capital Expenditures**

The following table sets forth certain information regarding the gross costs incurred in the purchase of proved and unproved properties and in development and exploration activities.

| | Year Ended December 31, | |
|---|---|---|
| | **2007** | **2006** |
| Property acquisition costs: | | |

| | | | | |
|---|---|---|---|---|
| Unproved | $ | 778,312 | $ | 6,094,136 |
| Proved | | 4,726,215 | | 5,929,225 |
| Exploration costs | | 3,227,137 | | 85,453 |
| Development costs | | 3,704,171 | | 7,446,629 |
| Asset retirement obligation *(1)* | | 330,299 | | 890,355 |
| | | | | |
| Total costs incurred | $ | 12,766,134 | $ | 20,445,798 |

*(1) Includes non-cash asset retirement obligations accrued in accordance with SFAS No. 143 of $330,299 and $890,355, respectively, for the years ended December 31, 2007 and 2006, respectively.*

**Productive Wells**

Productive wells are producing wells or wells capable of production. This does not include water source wells, water injection wells or water disposal wells. Productive wells do not include any wells in the process of being drilled and completed that are not yet capable of production, but does include old productive wells that are currently shut-in, because they are still capable of production. The following table sets forth the number of productive oil and natural gas wells in which we owned an interest as of December 31, 2007.

| | **Company Operated** | | **Other** | | **Total** | |
|---|---|---|---|---|---|---|
| | **Gross** | **Net** | **Gross** | **Net** | **Gross** | **Net** |
| Oil | 38 | 34.1 | 9 | 6.8 | 47 | 40.9 |
| Natural gas | 515 | 515.0 | — | — | 515 | 515.0 |
| Total | 553 | 549.1 | 9 | 6.8 | 562 | 555.9 |

**Drilling Activity**

The number of wells drilled refers to the number of wells (holes) completed at any time during the fiscal years, regardless when drilling was initiated. The term “completion” refers to the installation of permanent equipment for the production of oil or natural gas, or, in the case of a dry hole, to the reporting of abandonment to the appropriate agency. The following table sets forth our drilling activity for the last two years ended December 31, 2007 and 2006. The Company had several wells drilled but not yet completed at December 31, 2007 that are excluded from the following table. In the table, “gross” refers to the total wells in which we have a working interest and “net” refers to gross wells multiplied by our working interest therein.

| | Year Ended December 31, |
|---|---|
| | 2007 |