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MILLER PETROLEUM INC
Form 10QSB
March 15, 2004

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

FORM 10-QSB

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

For the quarterly period ended January 31, 2004

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from _____ to _____

Commission File No. 33-2249-FW

MILLER PETROLEUM, INC.

(Exact name of small business issuer as specified in its Charter)

TENNESSEE

(State or Other Jurisdiction of
incorporation or organization)

62-1028629

(I.R.S. Employer I.D. No.)

3651 Baker Highway
Huntsville, Tennessee 37756

(Address of principal executive offices)

(423) 663-9457

Issuer's telephone number

N/A

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Not applicable.

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's
classes of common equity, as of the latest practicable date:

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TOTAL ASSETS	----- \$4,996,485 =====	----- \$5,094,480 =====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 547,420	\$ 464,515
Accrued expenses	80,572	84,191
Notes payable - current portion	1,630,076	511,824
	-----	-----
Total Current Liabilities	2,258,068	1,060,530
	-----	-----
LONG-TERM LIABILITIES		
Notes payable - related	1,526	24,317
Notes payable	540,886	1,737,478
	-----	-----
Total Long-Term Liabilities	542,412	1,761,795
	-----	-----
Total Liabilities	2,800,480	2,822,325
	-----	-----
STOCKHOLDERS' EQUITY		
Common Stock: 500,000,000 shares authorized at \$0.0001 par value, 8,578,856 and 8,578,856 shares issued and outstanding	858	858
Additional paid-in capital	3,884,144	3,884,144
Retained Earnings	(1,688,997)	(1,612,847)
	-----	-----
Total Stockholders' Equity	2,196,005	2,272,155
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS'S EQUITY	\$4,996,485 =====	\$5,094,480 =====

The accompanying notes are an integral part of these consolidated financial statements.

MILLER PETROLEUM, INC.
Consolidated Statements of Operations
(UNAUDITED)

	For the Three Months Ended		For the Nine Months Ended	
	January 31		January 31	
	2004	2003	2004	2003
REVENUES				
Oil and gas revenue	\$ 207,448	\$ 157,034	\$ 568,637	\$ 477,416
Service and drilling revenue	238,579	169,952	1,061,710	839,162
Retail sales	298	7,500	6,939	10,200
Sale of equipment	0	0	0	73,703
Other revenue	35,824	6,450	37,324	127,357
	-----	-----	-----	-----
Total Revenue	482,149	340,936	1,674,610	1,527,838
	-----	-----	-----	-----

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COSTS AND EXPENSES

Cost of oil and gas sales	70,406	64,859	409,591	299,635
Selling, general and administrative	131,683	99,649	400,288	401,433
Salaries and wages	130,923	181,177	523,000	601,829
Depreciation, depletion and amortization	107,286	83,176	285,196	245,538
	-----	-----	-----	-----
Total Costs and Expenses	440,298	428,861	1,618,075	1,548,435
	-----	-----	-----	-----
INCOME (LOSS) FROM OPERATIONS	41,851	(87,925)	56,535	(20,597)
	-----	-----	-----	-----
OTHER INCOME (EXPENSE)				
Interest income	509	475	1,690	1,343
Interest expense	(39,188)	(44,726)	(134,375)	(148,015)
	-----	-----	-----	-----
Total Other Income (Expense)	(38,679)	(44,251)	(132,685)	(146,672)
	-----	-----	-----	-----
NET INCOME (LOSS)	\$ 3,172	\$ 132,176)	\$ (76,150)	\$ (167,269)
	=====	=====	=====	=====
NET EARNING (LOSS) PER SHARE	0.00	0.02	0.00	(0.02)
	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	8,578,856	8,578,856	8,578,856	8,578,856
	=====	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

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MILLER PETROLEUM, INC
Consolidated Statement of Stockholders' Equity
(UNAUDITED)

	Common Shares	Additional	Retained	Total	
	Shares	Paid-in	Earnings		
	Amount	Capital			
Balance					
April 30, 2002	8,578,856	\$858	\$3,884,144	(\$1,188,418)	\$2,696,584
Net loss for the twelve months ended					
April 30, 2003				(\$424,429)	(\$424,429)
Balance					
April 30, 2003	8,578,856	\$858	\$3,884,144	(\$1,612,847)	\$2,272,155
Net loss for the nine months ended					
January 31, 2004				(\$76,150)	(\$76,150)
Balance	-----	-----	-----	-----	-----
January 31, 2004	8,578,856	\$858	\$3,884,144	(\$1,688,997)	\$2,196,005
	=====	=====	=====	=====	=====

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The accompanying notes are an integral part of these consolidated financial statements

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MILLER PETROLEUM, INC.
Consolidated Statement of Cash Flows
(UNAUDITED)

	Nine Months Ended January 31, 2004	Nine Months Ended January 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	\$ (76,150)	\$ (167,269)
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation, depletion and amortization	285,196	245,538
Gain on sale of equipment	(58,388)	(73,703)
Changes in Operating Assets and Liabilities:		
Decrease (increase) in accounts receivable	(1,247)	7,234
Decrease (increase) in inventory	0	7,500
Decrease (increase) in prepaid expenses	(29,179)	(78,715)
Increase (decrease) in accounts payable	82,905	(120,803)
Increase (decrease) in accrued expenses	(3,619)	(19,134)
	-----	-----
Net Cash Provided (Used) by Operating Activities	199,518	(199,352)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(84,193)	(135,458)
Purchase of oil and gas properties	(340,072)	(61,007)
Sale of equipment	340,000	99,500
	-----	-----
Net Cash Provided (Used) by Investing Activities	(84,265)	(96,965)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(501,793)	(133,401)
Proceeds from borrowing	400,662	429,048
	-----	-----
Net Cash Provided (Used) by Financing Activities	(101,131)	295,647
	-----	-----
NET INCREASE IN CASH	14,122	(670)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	77,364	76,394
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 91,486	\$ 75,724
	-----	-----
CASH PAID FOR INTEREST	\$ (134,375)	\$ (148,015)
INCOME TAXES	0	0

The accompanying notes are an integral part of these consolidated financial

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statements.

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MILLER PETROLEUM, INC. Notes to the Consolidated Financial Statements

- (1) Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the Registrant's April 30, 2003 Annual Report on Form 10KSB. The results of operations for the period ended January 31, 2004 are not necessarily indicative of operating results for the full year.

The consolidated financial statements and other information furnished herein reflect all adjustment which are, in the opinion of management of the Registrant, necessary for a fair presentation of the results of the interim periods covered by this report.

- (2) RELATED PARTY TRANSACTIONS

On May 1, 2002, the Company executed a promissory note for \$50,000 in favor of Herman Gettelfinger, a director. The note was for a period of one month with an interest rate of eight percent and may be renewed on the same terms at the option of the holder.

- (3) New Accounting Pronouncements

In 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations" SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement cost. This statement requires companies to record the present value of obligations associated with the retirement of tangible long-lived assets in the period in which it is incurred. The liability is capitalized as part of the related long-lived assets carrying amount. Over time, accretion of the liability is recognized as an operating expense and the capitalization cost is depreciated over the expected useful life of the related asset. The Company's asset retirement obligations relate primarily to the plugging, dismantlement, removal site reclamation and similar activities of its oil and gas properties. Prior to adoption of this statement, such obligations were accrued ratably over the productive lives of the assets through its depreciation, depletion and amortization for oil and gas properties without recording a separate liability for such amounts. Management does not believe that adoption of this standard has a material impact in financial positions of results of operation.

In July 2002, FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with restructuring, discontinued operation, plant closing, or other exit or disposal activity. Previous accounting guidance was provided by EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity

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(including Certain Costs Incurred in a Restructuring)." Statement 146 replaces Issue 94-3. Statement 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company does not currently have any plans for exit or disposal activities, and therefore does not expect this standard to have a material effect on the Company's consolidated financial statements upon adoption.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", which clarifies disclosure and recognition/measurement requirements related to certain guarantees. The disclosure requirements are effective for financial statements issued after December 15, 2002 and the recognition/measurement requirements are effective on a prospective basis for guarantees issued or modified after December 31, 2002. The application of the requirements of FIN 45 did not have a impact on our financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, Accounting of Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123 ("Statement 148"). This amendment provides two additional methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. Additionally, more prominent disclosures in both annual and interim financial statements are required for stock-based employee compensation. The transition guidance and annual disclosure provisions of Statement 148 are effective for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The adoption of Statement 148 did not have a impact on the Company's consolidated financial statements.

In January 2003, the FASB issued FASB Interpretation No. (FIN) 46, "Consolidation of Variable Interest Entities." This interpretation of Accounting Research Bulletin No. 51 "Consolidated Financial Statements" consolidation by business enterprises of variable interest entities which possess certain characteristics. The Interpretation requires that if a business enterprise has a controlling financial interest in a variable interest entity, the assets, liabilities, and results of the activities of the variable interest entity must be included in the consolidated financial statements with those of the business enterprise. This Interpretation applies immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. We do not have any ownership in any variable interest entities as of March 31, 2003. We will apply the consolidation requirement of FIN 46 in future periods if we should own any interest in any variable interest entity.

Item 2. Management's Discussion and Analysis or Plan of Operation.

Miller Petroleum has more than 50,000 acres under lease in Tennessee. About 95% of these leases are held by production. Most of its current oil and gas production is from the Big Lime Formation. However, there are more than 100 development drilling locations that target the Chattanooga Shale as well as the Big Lime Formation.

Currently, Miller is offering ten well drilling programs to "accredited investors" or "sophisticated investors" to spread the risk and facilitate investor returns. The Company will sell up to a 75% working interest to

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investors while retaining a 25% working interest. Each program will be made up of four Chattanooga Shale wells on its Koppers North acreage, five wells on its Koppers South gas cap and one exploratory well on certain structures in the Eastern Overthrust belt.

In June of 2001, the Company made a conventional Big Lime gas discovery, on the Lindsay Land Company lease jointly owned by Delta Producers, Inc. and Miller. Currently there are six producing wells on this property. There are at a minimum ten additional drill sites on this 4,000 acres lease which is situated near Caryville, Tennessee.

Miller is continuing its leasing efforts in the East Tennessee portion of the Eastern Overthrust Belt. Acreage is being leased on selected large structures. Two test wells are being planned on one of these large structures to test the Trenton, Stones River, and upper Knox formations. Knox wells in the Overthrust have reserves in excess of two Bcf gas per well.

Liquidity and Capital Resources

We estimate that we will be able to adequately fund our development and production plans, with the exception of the acquisition of additional properties, for the next 12 months. Sources of funds for us will be revenue from operations, in particular sales of working interests in wells that we drill; receipts from the private placement of our securities; and loans.

We believe that our current cash flow will be sufficient to support our cash requirements for development and production over the next 12 months.

Results of Operations

The Company had revenues of \$482,149 for the third quarter of fiscal 2004, up from the \$340,936 in revenues recognized during the third quarter of fiscal 2003.

Oil and gas revenue for the current quarter was \$207,448 up from \$157,034 in the third quarter of fiscal 2003. This increase was due primarily to natural gas sales from the Lindsay Land Company lease and higher oil and natural gas prices.

Service and drilling revenue for the third quarter was \$238,579 up from \$169,952 for the same quarter last year. This increase was due to the increased drilling activity.

During the current quarter, retail sales were \$298 compared to \$7,500 during the third quarter of fiscal 2003. This decrease was due to a decrease in activities.

The Company's net income for the current quarter was \$3,172, up from a net loss of \$(132,176) for the same quarter of fiscal 2003. This increase was due to an increase in drilling activity and oil and gas prices.

Cost of oil and gas sales for the third quarter of fiscal 2004 was \$70,406, up from \$64,859 in the same quarter of fiscal 2003, due primarily to the decrease down in drilling activity.

Selling, general and administrative expenses were \$131,683, up from \$99,649 in the third quarter of fiscal 2003. This increase was primarily due to increases in insurance, legal and professional expenses.

Salaries and wages for the current quarter were \$130,923, down from

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\$181,177 in the third quarter of fiscal 2003.

Depreciation, depletion and amortization for the third quarter of fiscal 2004 was \$107,286 up from \$83,176 in the third quarter of 2003. This increase was due to a increase in drilling activities.

Item 3. Controls and Procedures

Within the 90-day period prior to the filing of this report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC reports. It should be noted that the design of any system of controls is based on in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. In addition, we reviewed our internal controls, and there have been no significant changes in our internal controls or in other factors that could significantly affect those controls subsequent to the date of their last evaluation.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities.

None.

Item 3. Defaults Upon Senior Securities.

None; not applicable.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.*

(a) Exhibits.

31.1 302 Certification of Chief Executive Officer

31.2 302 Certification of Chief Financial Officer

32 906 Certification

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(b) Reports on Form 8-K.

None.

* A summary of any Exhibit is modified in its entirety by reference to the actual Exhibit.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: March 15, 2004

MILLER PETROLEUM, INC.

By:/s/Deloy Miller

Deloy Miller
Chief Executive Officer

Date: March 15, 2004

By:/s/Deloy Miller

Deloy Miller,
Acting As Chief Financial Officer