MILLER PETROLEUM INC
Form 10QSB
December 15, 2004

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

FORM 10-QSB

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

For the quarterly period ended October 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	62-1028629
(State or Other Jurisdiction of incorporation or organization)	(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:
December 15, 2004

9,453,856 Common Shares

Transitional Small Business Issuer Format Yes X No

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The Financial Statements of Miller Petroleum, Inc., a Tennessee corporation (the "Company"), required to be filed with this Quarterly Report were prepared by management and reviewed by Butch Grubb, Certified Public Accountant of London, Kentucky and commence on the following page, together with related Notes. In the opinion of management, the Financial Statements fairly present the financial condition of the Registrant.

MILLER PETROLEUM, INC.
Consolidated Balance Sheets

ASSETS

	October 31, 2004 Unaudited	April 30, 2004
CURRENT ASSETS		
Cash	$ 57,018	$ 73,416
Accounts receivable - trade-, net	313,042	313,137
Inventory	494,853	494,853
Prepaid expenses	0	39,808
Total Current Assets	864,913	921,214
FIXED ASSETS		
Machinery and equipment	1,034,235	1,036,802
Vehicles	364,540	385,465
Buildings	313,335	313,335
Office Equipment	72,549	72,549
Less: accumulated depreciation	(941,032)	(905,531)
Total Fixed assets	843,627	902,620
OIL AND GAS PROPERTIES (On the basis of successful efforts accounting)	3,111,450	2,638,005
PIPELINE FACILITIES	212,462	218,637
OTHER ASSETS		
Land	511,500	511,500
Investments	500	500
Total Other Assets	512,000	512,000
TOTAL ASSETS	$5,544,452	$5,192,476

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable - trade	$ 525,685	$ 586,234
Accrued expenses	125,789	116,022
Notes payable - current portion	1,582,312	1,628,153
Total Current Liabilities	2,233,786	2,330,409
LONG-TERM LIABILITIES		
Notes payable - related	61,164	15,230
Notes payable	518,082	528,522
Total Long-Term Liabilities	579,246	543,752
Total Liabilities	2,813,032	2,874,161
STOCKHOLDERS' EQUITY		
Common Stock: 500,000,000 shares authorized at $0.0001 par value, 9,453,856 and 8,578,856 shares issued and outstanding	894	858
Additional paid-in capital	4,245,109	3,884,144
Retained Earnings	(1,514,583)	(1,566,687)
Total Stockholders' Equity	2,731,420	2,318,315
TOTAL LIABILITIES AND STOCKHOLDERS'S EQUITY	$5,544,452	$5,192,476

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 October 31		For the Six Months Ended October 31	
	2004	2003	2004	2003
REVENUES				
Oil and gas revenue	$ 135,506	$ 155,213	$ 362,450	$ 361,189
Service and drilling revenue	29,538	515,027	61,351	823,130
Retail sales	7,592	3,681	35,492	6,641
Sale of equipment	35,989	0	42,489	0
Other revenue	30,179	0	30,828	1,500
Total Revenue	238,804	673,921	532,610	1,192,460
COSTS AND EXPENSES				
Cost of oil and gas sales	34,484	167,527	76,635	339,186
Selling, general and administrative	33,246	164,980	125,990	268,605
Salaries and wages	64,068	198,557	97,774	392,077

Depreciation, depletion and amortization	43,165	87,184	84,221	177,911
Total Costs and Expense	174,963	618,248	384,620	1,177,779
INCOME (LOSS) FROM OPERATIONS	63,841	55,673	147,990	14,681
OTHER INCOME (EXPENSE)				
Interest income	186	467	245	1,182
Interest expense	(50,201)	(42,635)	(96,131)	(95,187)
Total Other Income (Expense)	(50,015)	(42,168)	(95,886)	(94,005)
NET INCOME (LOSS)	$ 13,826	$ 13,505	$ 52,104	$ (79,324)
NET EARNING (LOSS) PER SHARE	0.00	0.00	0.00	0.00
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	9,120,523	8,578,856	9,453,856	8,578,856

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

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

	Common Shares Shares	Common Shares Amount	Additional Paid-in Capital	Retained Earnings	Total
Balance April 30, 2004	8,578,856	$858	$3,884,144	($1,566,687)	$2,318,315
Common Stock issued for cash	375,000	$10	$95,991		$96,001
Common Stock issued for leases	500,000	$26	$264,974		265,000
Net loss for the Six months ended October 31, 2004				$52,104	$52,104
Balance October 31, 2004	9,453,856	$894	$4,245,109	($1,514,583)	$2,731,420

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

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

	Six Months Ended October 31, 2004	Six Months Ended October 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		

Net Income (Loss)	$ 52,104	$ (79,324)
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation, depletion and amortization	84,221	177,911
Gain on sale of equipment	2,877	(22,564)
Changes in Operating Assets and Liabilities:		
Decrease (increase) in accounts receivable	95	6,468
Decrease (increase) in investments	0	12,812
Decrease (increase) in prepaid expenses	39,808	26,042
Increase (decrease) in accounts payable	(60,549)	(5,493)
Increase (decrease) in accrued expenses	9,767	10,825
Net Cash Provided (Used) by Operating Activities	128,323	126,677
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	0	(42,591)
Purchase of oil and gas properties	(230,375)	(269,880)
Net Cash Provided (Used) by Investing Activities	(230,375)	(312,471)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(56,281)	(236,723)
Proceeds from borrowing	45,934	400,662
Net Proceeds from issuance of common stock	96,001	0
Net Cash Provided (Used) by Financing Activities	85,654	163,939
NET INCREASE (DECREASE) IN CASH	(16,398)	(21,855)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	73,416	77,364
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 57,018	$ 55,509
CASH PAID FOR		
INTEREST	$ (96,131)	$ (95,187)
INCOME TAXES	0	0

The accompanying notes are an integral part of these consolidated financial 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, 2004 Annual Report on Form 10KSB. The results of operations for the period ended October 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

None

(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 (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 90% 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 to twenty 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 investors while retaining a 25% working interest. Each program will be made up of eight to fifteen Chattanooga Shale wells on its Koppers North acreage, three to 5 wells on its Koppers South gas cap and one exploratory well on the Harriman Prospect.

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 the property. There are at a minimum twenty five 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.

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 $238,804 for the second quarter of fiscal 2005, down from the $673,921 in revenues recognized during the second quarter of fiscal 2004.

Oil and gas revenue for the current quarter was $135,506 down from $155,233 in the second quarter of fiscal 2004. This decrease was due primarily to decreased production.

Service and drilling revenue for the second quarter was $29,538 down from $308,103 for the same quarter last year. This decrease was due to decreased drilling activity.

Sale of equipment and Other revenue for the second quarter were $ 35,989 and $30,179 respectively up from $0 for the second quarter of 2004. This increase was due to equipment sales and other revenue generated for the second quarter of 2005.

During the current quarter, retail sales were $7,592 compared to $3,681 during the second quarter of fiscal 2004. This increase was due to increased sales.

The Company's net income for the current quarter was $13,826, up from net income of $13,505 for the same quarter of fiscal 2004. This increase was due to better management and increase in oil and gas prices.

Cost of oil and gas sales for the second quarter of fiscal 2005 was $34,484, down from $167,527 in the same quarter of fiscal 2004, due primarily to better management.

Selling, general and administrative expenses were $33,246, down from $164,980 in the second quarter of fiscal 2004. This decrease was primarily due to decreases in insurance, legal and professional expenses.

Salaries and wages for the current quarter were $64,068, down from $198,557 in the second quarter of fiscal 2004.

Depreciation, depletion and amortization for the second quarter of fiscal 2005 was $43,165 down from $87,184 in the second quarter of 2004. This decrease was due to decreases in depreciation expense.

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.

None.

(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: December 15, 2004 MILLER PETROLEUM, INC.

By:/s/Deloy Miller
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Deloy Miller
Chief Executive Officer

Date: December 15, 2004 By:/s/Charles M. Stivers
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Charles M. Stivers,
Chief Financial Officer