MILLER PETROLEUM INC
Form 10QSB
December 17, 2003

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, 2003

[ ] 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, 2003

8,578,856 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 Charles M. Stivers, Certified Public Accountant of Manchester, 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, 2003 Unaudited	April 30, 2003
CURRENT ASSETS		
Cash	$ 55,509	$ 77,364
Investments	0	12,812
Accounts receivable - trade-, net	324,911	318,443
Inventory	534,260	534,260
Prepaid expenses	3,368	29,410
Total Current Assets	918,048	972,289
FIXED ASSETS		
Machinery and equipment	1,404,269	1,416,709
Vehicles	408,801	408,801
Buildings	313,335	313,335
Office Equipment	72,549	74,379
Less: accumulated depreciation	(988,047)	(954,163)
Total Fixed assets	1,210,907	1,259,061
OIL AND GAS PROPERTIES (On the basis of successful efforts accounting)	2,337,186	2,116,026
PIPELINE FACILITIES	206,286	235,104
OTHER ASSETS		
Land	511,500	511,500
Investments	500	500
Total Other Assets	512,000	512,000

TOTAL ASSETS	$5,184,427	$5,094,480
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	$ 459,022	$ 464,515
Accrued expenses	95,016	84,191
Notes payable - current portion	495,691	511,824
Total Current Liabilities	1,049,729	1,060,530
LONG-TERM LIABILITIES		
Notes payable - related	1,098	24,317
Notes payable	1,940,769	1,737,478
Total Long-Term Liabilities	1,941,867	1,761,795
Total Liabilities	2,991,596	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	(1,692,171)	(1,612,847)
Total Stockholders' Equity	2,192,831	2,272,155
TOTAL LIABILITIES AND STOCKHOLDERS'S EQUITY	$5,184,427	$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 October 31		For the Six Months Ended October 31	
	2003	2002	2003	2002
REVENUES				
Oil and gas revenue	$ 155,213	$ 135,751	$ 361,189	$ 320,382
Service and drilling revenue	515,027	431,161	823,130	669,210
Retail sales	3,681	2,700	6,641	2,700
Sale of equipment	0	73,703	0	73,703
Other revenue	0	116,126	1,500	120,907
Total Revenue	673,921	759,441	1,192,460	1,186,902

COSTS AND EXPENSES				
Cost of oil and gas sales	167,527	176,046	339,186	234,775
Selling, general and administrative	164,980	146,456	268,605	301,784
Salaries and wages	198,557	204,319	392,077	420,652
Depreciation, depletion and amortization	87,184	82,332	177,911	162,362
Total Costs and Expenses	618,248	609,153	1,177,779	1,119,573
INCOME (LOSS) FROM OPERATIONS	55,673	150,288	14,681	67,329
OTHER INCOME (EXPENSE)				
Interest income	467	223	1,182	868
Interest expense	(42,635)	(48,096)	(95,187)	(103,289)
Total Other Income (Expense)	(42,168)	(47,873)	(94,005)	(102,421)
NET INCOME (LOSS)	$ 13,505	$ 102,415	$ (79,324)	$ (35,092)
NET EARNING (LOSS) PER SHARE	0.00	0.01	0.00	0.00
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	Shares Amount	Paid-in Capital	Additional Retained Earnings	Total
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 six months ended October 31, 2003				($79,324)	($79,324)
Balance October 31, 2003	8,578,856	$858	$3,884,144	($1,692,171)	$2,192,831

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, 2003	Six Months Ended October 31, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	$ (79,324)	$ (35,092)
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation, depletion and amortization	177,911	162,362
Gain on sale of equipment	(22,564)	(73,703)
Common stock issued for services		
Common stock issued for inventory		
Changes in Operating Assets and Liabilities:		
Decrease (increase) in accounts receivable	6,468	(96,665)
Decrease (increase) in investments	12,812	0
Decrease (increase) in prepaid expenses	26,042	11,520
Increase (decrease) in accounts payable	(5,493)	17,366
Increase (decrease) in accrued expenses	10,825	(11,781)
Net Cash Provided (Used) by Operating Activities	126,677	(25,993)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(42,591)	(108,854)
Purchase of oil and gas properties	(269,880)	(28,886)
Sale of equipment	0	99,500
Net Cash Provided (Used) by Investing Activities	(312,471)	(38,240)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(236,723)	(114,978)
Proceeds from borrowing	400,662	216,868
Net Cash Provided (Used) by Financing Activities	163,939	101,890
NET INCREASE (Decrease) IN CASH	(21,855)	37,657
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	77,364	76,394
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 55,509	$ 114,051
CASH PAID FOR INTEREST	$ (95,187)	$ (103,289)

INCOME TAXES	0	0

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

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 October 31, 2003 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 (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 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 five producing wells on the property with one additional well that will begin selling gas December 31, 2003. 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 $673,921 for the second quarter of fiscal 2004, down from the $759,441 in revenues recognized during the first quarter of fiscal 2003.

Oil and gas revenue for the current quarter was $155,213 up from $135,751 in the second 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 second quarter was $515,027 up from $431,161 for the same quarter last year. This increase was due to the increased drilling activity.

During the current quarter, retail sales were $3,681 compared to $2,700 during the second quarter of fiscal 2003. This increase was due to increased activities.

The Company's net income for the current quarter was $13,505, down from net income of $102,415 for the same quarter of fiscal 2003. This decrease was due to a lack of equipment sales.

Cost of oil and gas sales for the second quarter of fiscal 2004 was $167,527, down from $176,046 in the same quarter of fiscal 2003, due primarily to the cost savings by management.

Selling, general and administrative expenses were $164,980, up from $146,456 in the second 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 $198,557, down from $204,319 in the second quarter of fiscal 2003.

Depreciation, depletion and amortization for the second quarter of fiscal 2004 was $87,184 up from $82,332 in the second quarter of 2003. This increase was due to additional equipment being depreciated.

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.

On or about January 13, 2003, Bob A. Pelc and Bernard J. Pelc filed a "Verified Complaint To Quiet Title And To Enforce Claim Of Abandoned Mineral Interest" against Donald R. Bardill and Miller Petroleum, Inc., in the Chancery Court of Morgan County, Tennessee, asserting that the mineral interest in certain property in Morgan County, Tennessee, owned by Donald R. Bardill and leased to Miller Petroleum, Inc., had been extinguished and that said mineral interest had reverted to the owner of the surface. The complaint asked the Court that it be adjudged and finally determined that the Plaintiffs are the lawful owners and are vested with absolute and unencumbered title in not only fee simple to the Subject Property but also any previous mineral rights or other encumbrances, such as those held by Bardill.

Donald R. Bardill is defending the above action against his title in his mineral interest. The lease to Miller has been extended to six months past the end of the civil action. It appears likely that Bardill will prevail in the courts and Miller will drill for oil on its lease from Bardill. In any event, this case will not have a material effect on Miller.

As of September 18, 2003, the above-mentioned case has been settled with Bardill prevailing, and Miller will be able to drill for oil on this lease.

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.

On September 16, 2003 Miller Petroleum, Inc. signed an exploration joint venture with North Coast Energy, Inc. to develop a major oil and gas prospect in Tennessee.

On October 14, 2003, the Company's Chief Financial Officer, Mr. Lawrence L. LaRue passed away following a lingering illness. The Company is actively seeking a qualified replacement to fill Mr. LaRue's position.

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

(a) Exhibits.

31.1 302 Certification of Deloy Miller Chief Executive Officer

31.2 302 Certification of Deloy Miller as Acting Chief Financial Officer

32 906 Certification

(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, 2003 MILLER PETROLEUM, INC.

By:/s/Deloy Miller

Deloy Miller
Chief Executive Officer

Date: December 15, 2003 By:/s/Deloy Miller

Deloy Miller
Acting As Chief Financial Officer