MILLER PETROLEUM INC
Form 10QSB
March 23, 2005

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 January 31, 2005

[ ] 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:

March 15, 2005

9,253,856 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. In the opinion of management, the Financial Statements fairly present the financial condition of the Registrant.

MILLER PETROLEUM, INC.
Consolidated Balance Sheets

	January 31 2005 Unaudited	April 30 2004 As Restated
ASSETS		
CURRENT ASSETS		
Cash	$ 48,722	$ 2,416
Accounts receivable	144,211	117,167
Current portion of note receivable	0	18,875
Inventory	51,250	50,911
Deferred offering costs	88,842	88,842
Prepaid expenses	0	66,590
Total Current Assets	333,025	344,801
FIXED ASSETS		
Machinery and equipment	1,003,235	1,036,802
Vehicles	341,734	385,465
Buildings	313,335	313,335
Office Equipment	72,549	72,549
Less: accumulated depreciation	(927,880)	(905,531)
Total Fixed assets	802,973	902,620
OIL AND GAS PROPERTIES (On the basis of successful efforts accounting)	3,176,644	2,638,005
PIPELINE FACILITIES	209,386	218,637
OTHER ASSETS		
Land	511,500	511,500
Investments	500	500
Equipment held for sale	443,942	443,942
Long-term notes receivable - Meyers	0	56,338
Cash - restricted	69,000	71,000
Total Other Assets	1,024,942	1,083,280
TOTAL ASSETS	$5,546,970	$5,187,343

See notes to consolidated financial statements.

Miller Petroleum, Inc.
Consolidated Balance Sheets

	January 31 2005 Unaudited	April 30 2004 As Restated
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	$ 297,692	$ 335,556
Accrued expenses	160,831	116,011
Current portion of notes payable -		
Related parties	1,434,000	1,360,000
Other	127,023	176,624
Total Current Liabilities	2,019,546	1,988,191
LONG-TERM LIABILITIES		
Notes payable-Related parties	244,139	269,230
Other	543,788	616,739
Total Long-Term Liabilities	787,927	885,969
Total Liabilities	2,807,473	2,874,160
STOCKHOLDERS' EQUITY		
Common Stock: 500,000,000 shares authorized at $0.0001 par value, 9,173,856 and 8,378,856 shares issued and outstanding	917	838
Additional paid-in capital	4,534,920	4,173,998
Retained Earnings	(1,796,340)	(1,861,653)
Total Stockholders' Equity	2,739,497	2,313,183
TOTAL LIABILITIES AND STOCKHOLDERS'S EQUITY	$5,546,970	$5,187,343

See notes to consolidated financial statements

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

	For the Three Months Ended January 31 2005	For the Three Months Ended January 31 Restated 2004	For the Nine Months Ended January 31 2005	For the Nine Months Ended January 31 Restated 2004
REVENUES				
Oil and gas revenue	$ 238,790	$ 207,448	$ 601,240	$ 568,637
Service and drilling revenue	29,514	238,579	90,865	1,061,710
Retail sales	455	298	35,947	6,939

Other revenue	45	35,824	30,873	37,324
Total Revenue	268,804	482,149	758,925	1,674,610
COSTS AND EXPENSES				
Cost of oil and gas sales	38,890	70,406	115,525	409,591
Selling, general and administrative	74,706	156,683	200,696	425,288
Salaries and wages	82,884	130,923	180,658	523,000
Depreciation, depletion and amortization	63,330	118,123	152,659	306,870
Total Costs and Expense	259,810	476,135	649,538	1,664,749
INCOME (LOSS) FROM OPERATIONS	8,994	6,014	109,387	9,681
OTHER INCOME (EXPENSE)				
Interest income	429	509	674	1,690
Sale of Equipment	56,149	0	98,638	0
Interest expense	(47,255)	(39,188)	(143,386)	(134,375)
Total Other Income (Expense)	9,323	(38,679)	(44,074)	(132,685)
NET INCOME (LOSS)	$ 18,317	$ (32,665)	$ 65,313	$(122,824)
NET EARNING (LOSS) PER SHARE				
BASIC	0.00	0.00	0.01	(0.01)
BASIC	9,273,856	8,378,856	9,119,793	8,378,856
DILUTED	0.00	0.00	0.01	(0.01)
DILUTED	9,273,856	8,378,856	9,051,074	8,378,856

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

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

	Common Shares	Shares Amount	Additional Paid-in Capital	Retained Earnings	Total
Balance, April 30,2002 as previously stated	8,578,856	$858	$3,884,144	$(1,188,418)	$2,696,584
Effect of restatement	(450,000)	(45)		(237,455)	(237,500)
Restated balance, April 30, 2002	8,128,856	813	3,884,144	(1,425,873)	2,459,084
Issuance of shares for cash	85,000	9	47,491	-	47,500

Issuance of shares for consulting	80,000	8	69,236	-	69,244
Net loss for the year ended April 30, 2003	-	-	-	(424,429)	(424,429)
Restated balance, April 30, 2003	8,293,856	830	4,000,871	(1,850,302)	2,151,399
Issuance of shares in connection with deferred offering	85,000	8	88,834	-	88,842
Issuance of warrants as prepayment of financing costs	-	-	59,293	-	59,293
Issuance of options for services	-	-	25,000	-	25,000
Net income for the year ended April 30, 2004	-	-	-	(11,351)	(11,351)
Restated balance, April 30, 2004	8,378,856	838	4,173,998	(1,861,653)	2,313,183
Common Stock issued for cash	295,000	29	95,972	-	96,001
Common Stock issued for leases	500,000	50	264,950	-	265,000
Net income for the Nine months ended January 31, 2005	-	-	-	65,313	65,313
Balance January 31, 2005	9,173,856	$917	$4,534,920	($1,796,340)	$2,739,497

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

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

	For The Nine Months Ended January 31, 2005	As Restated For The Nine Months Ended January 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	$ 65,313	$ (122,824)
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		

Depreciation, depletion and amortization	152,659	306,870
Gain on sale of equipment	6,665	(58,388)
Options issued in exchange for services	0	25,000
Changes in Operating Assets and Liabilities:		
Decrease (increase) in accounts receivable	48,169	(1,247)
Decrease (increase) in inventory	(339)	0
Decrease (increase) in prepaid expenses	66,590	(29,179)
Increase (decrease) in accounts payable	(37,864)	82,905
Increase (decrease) in accrued expenses	44,820	(3,619)
Net Cash Provided (Used) by Operating Activities	346,013	199,518
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	0	(84,193)
Purchase of oil and gas properties	(324,065)	(340,072)
Sale of equipment	0	340,000
Decrease in restricted cash	2,000	3,000
Net Cash Provided (Used) by Investing Activities	(322,065)	(81,265)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(122,552)	(501,793)
Proceeds from borrowing	48,909	400,662
Net proceeds from issuance of common stock	96,001	0
Net Cash Provided (Used) by Financing Activities	22,358	(101,131)
NET INCREASE (DECREASE) IN CASH	46,306	17,122
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,416	3,364
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 48,722	$ 20,486
CASH PAID FOR		
INTEREST	$ (143,386)	$ (134,375)
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, 2004 Annual Report on Form 10KSB. The results of operations for the period ended January 31, 2005 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) NOTE 2 RESTATEMENT OF FINANCIAL STATEMENTS

The Company previously issued its financial statements as of and for the year ended April 30, 2004, which were included in its Form 10KSB filed on July 29, 2004. The filing included a report, dated July 20, 2004, which expressed an unqualified opinion on those statements by independent accountants who had not registered with the Public Companies Accounting Oversight Board (PCAOB). Additionally, the report, failed to note the conduct of the audit in accordance with the standards of the PCAOB. Because of these failures, the Company's financial reporting was not in compliance with rules established by the Securities Exchange Commission, and accordingly, the Company engaged other auditors to conduct a PCAOB-compliant audit of its April 30, 2004 financial statements. The Company issued the resulting financial statements on Form 10KSB/A on February 15, 2005.

In connection with the PCAOB-compliant audit of the 2004 financial statements, management identified errors in amounts previously reported in the Company's financial statements for the years ended April 30, 2002, 2003 and 2004. The Company made an error in failing to record, in total, bad debt expense of approximately $237,500 in relation to the non-payment of a stockholder receivable in 2002, resulting in a misstatement of retained earnings in 2002, 2003 and 2004. In 2004 the Company's previously issued financial statements failed to include compensation and interest expense of approximately $57,000 in connection with issuances of options and warrants. This filing, therefore, reflects the effects of restatements identified as of April 30, 2004, including additional amortization of prepaid financing costs of approximately $22,000 in the first two quarters of the year ending April 30, 2005 and amortization of approximately $21,000 in the two quarters ended January 31, 2004.

(3) RELATED PARTY TRANSACTIONS

The Company has a note payable to Sharon Miller (wife of Deloy Miller, a majority stockholder) for $15,230 at April 30, 2004. The note is payable with a principle payment of $15,230 due in May 2005. The note is the balance remaining on the original purchase of the property that houses the Company's offices.

The Company issued a note payable of $1,110,000 and $250,000 on August 13, 2003 at 9% with a one year term to Sherri Ann Parker Lee and William Parker Lee respectively. This note payable was issued to raise working capital.

The related party notes are due to members of the Company's board of directors or their immediate families.

(4) NEW ACCOUNTING PRONOUNCEMENTS

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 plan to drill; 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 $268,804 for the third quarter of fiscal 2005, down from the $482,149 in revenues recognized during the third quarter of fiscal 2004.

Oil and gas revenue for the current quarter was $238,790 up from $207,448 in the third quarter of fiscal 2004. This increase was due primarily to price increases.

Service and drilling revenue for the third quarter was $29,514 down from $238,579 for the same quarter last year. This decrease was due to decreased drilling activity.

Sale of equipment and Other revenue for the third quarter were $ 56,149 and $45 respectively up from $0 for the third quarter of 2004. This increase was due to oil and gas price increases which in term increased equipment sales.

During the current quarter, retail sales were $455 compared to $298 during the third quarter of fiscal 2004. This increase was due to increased retail sales.

The Company's net income for the current quarter was $18,317, up from a net loss of $(32,665) for the same quarter of fiscal 2004.

Cost of oil and gas sales for the third quarter of fiscal 2005 was $38,890, down from $70,406 in the same quarter of fiscal 2004, due primarily to less employees and better management.

Selling, general and administrative expenses were $74,706, down from $156,683 in the third 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 $82,884, down from $130,923 in the third quarter of fiscal 2004.

Depreciation, depletion and amortization for the third quarter of fiscal 2005 was $63,330 down from $118,123 in the third quarter of 2004. This decrease was due to decreases in depreciation expense.

Stockholders' Equity

The Company had the following issuances of stock for the nine months ended January 31, 2005.

Issuance Name	Date	Shares	Amount
Ratliff Farms, Inc.	05-18-04	200,000	50,000
Plumbroke Farms, Inc.	06-21-04	75,000	30,000
Lambert Haug	07-26-05	20,000	16,000
		295,000	96,000
Ratliff Farms, Inc. (For Leases)	09-28-04	500,000	265,000

Item 3. Internal Controls

Standard No. 2 issued by the Public Company Accounting Oversight Board (PCAOB No. 2) which governs the reporting requirements for Section 404 of the Sarbanes-Oxley Act of 2002 (SOX 404) was issued in the spring of 2004. Specific implementation requirments and guidance continue to be developed. The Company is in the initial stages of conducting its assessment of internal control over financial reporting as required by SOX 404. However, the guidance on PCAOB No.2 indicates that materiality levels for defining significant deficiencies and material weaknesses are lower than initially expected and lower than historical guidance. Accordingly, it is likely that the Company will be unable to achieve the level of compliance contemplated in SOX 404 to receive an unmodified opinion on its internal control over financial reporting from its external auditors.

In the opinion of management, the accompanying unaudited condensed financial statements reflect all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position of the Company as of

January 31, 2005, its results of operations for the nine and three months ended January 31, 2005 and 2004, its changes in stockholders' equity for the nine months ended January 31, 2005 and its cash flows for the nine months ended January 31, 2005 and 2004. Pursuant to the rules and regulations of the Unites States Securities and Exchange Commission (the SEC), certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed in or omitted from these financial statements unless significant changes have taken place since the end of the most recent fiscal year. Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements as of April 30, 2004 and for the years ended April 30, 2004 and 2003 and the notes thereto (the Audited Financial Statements) and the other information included in the Company's Annual Report on Form 10-KSB (the Form 10-KSB) for the year ended April 30, 2004 that was previously filed with the SEC.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

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.

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 22, 2005 MILLER PETROLEUM, INC.

By:/s/Deloy Miller

Deloy Miller
Chief Executive Officer

Date: March 22, 2005 By:/s/Charles M. Stivers

Charles M. Stivers,
Chief Financial Officer