MILLER PETROLEUM INC
Form 10QSB
September 16, 2002

U. S. 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 July 31, 2002

[ ] 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.
(Name of Small Business Issuer 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)

Issuer's Telephone Number: (423) 663-9457

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

(1) Yes X No ___ (2) Yes X No ___

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

Not applicable.

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date:

September 10, 2002

8,578,856

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

	July 31, 2002 Unaudited	April 30, 2002
CURRENT ASSETS		
Cash	$ 97,764	$ 76,394
Investments	78,328	78,328
Accounts receivable - trade-, net	257,756	311,253
Inventory	567,287	567,287
Prepaid expenses	24,551	30,312
Total Current Assets	1,025,686	1,063,574
FIXED ASSETS		
Machinery and equipment	1,334,723	1,361,117
Vehicles	408,801	453,138
Buildings	313,335	313,335
Office Equipment	74,379	80,560
Less: accumulated depreciation	(816,534)	(840,768)
Total Fixed assets	1,314,704	1,367,382
OIL AND GAS PROPERTIES (On the basis of successful efforts accounting)	2,141,816	2,152,460
PIPELINE FACILITIES	268,039	280,390
OTHER ASSETS		

Land	511,500	511,500
Investments	500	500
Total Other Assets	512,000	512,000
TOTAL ASSETS	$5,262,245	$5,375,806

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable - trade	$ 274,413	$ 386,631
Accrued expenses	71,402	76,853
Notes payable - current portion	638,486	501,633
Total Current Liabilities	984,301	965,117
LONG-TERM LIABILITIES		
Notes payable - related	13,832	1,326
Notes payable	1,705,035	1,712,779
Total Long-Term Liabilities	1,718,867	1,714,105
Total Liabilities	2,703,168	2,679,222
STOCKHOLDERS' EQUITY		
Common Stock: 500,000,000 shares authorized at $0.0001 par value, 8,328,856 and 8,328,856 shares issued and outstanding	858	822
Additional paid-in capital	3,884,144	3,884,144
Retained Earnings	(1,325,925)	(1,188,418)
Total Stockholders' Equity	2,559,077	2,696,584
TOTAL LIABILITIES AND STOCKHOLDERS'S EQUITY	$5,262,245	$5,375,806

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 July 31, 2002	2001
REVENUES		
Oil and gas revenue	$ 184,631	$121,886
Service and drilling revenue	238,049	449,866
Retail sales	0	24,184
Other revenue	4,781	2,693

Total Revenue	427,461	598,629
COSTS AND EXPENSES		
Cost of oil and gas sales	58,729	219,078
Selling, general and administrative	155,328	218,964
Salaries and wages	216,333	179,512
Depreciation, depletion and amortization	80,030	95,849
Total Costs and Expenses	$ 510,420	$713,403
NET INCOME (LOSS)	(82,959)	(114,774)
Other Income (Expense)		
Interest income	645	124
Interest expense	(55,193)	(50,010)
Total Other Income (Expense)	(54,548)	(49,886)
Income Taxes	0	0
NET INCOME (LOSS)	$ (137,507)	$(164,660)
NET EARNING(LOSS) PER SHARE	(0.02)	(0.02)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	8,578,856	8,273,656

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, 2001	8,218,656	$822	$3,566,480	($680,661)	$2,886,641
Common stock issued for cash at $1.00 per share	110,000	11	109,989	-	110,000
Stock options exercised at $0.575 per share	100,000	10	57,490	-	57,500

Common stock issued for equipment at $1.00 per share	150,000	15	149,985	-	150,000
Common stock issued for services at $1.00 per share	200		200	-	200
Net loss for the three monthes ended April 30, 2002				($507,757)	($507,757)
Balance April 30, 2002	8,578,656	$858	$3,884,144	($1,188,418)	$2,696,584
Net loss for the three months ended July 31, 2002				($137,507)	($137,507)
Balance July 31, 2002	$8,578,856	$858	$3,884,144	($1,325,925)	$2,559,077

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

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

	Three Months Ended July 31,2002	Twelve Months Ended April 30, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$(137,507)	$(507,757)
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation, depletion and amortization	80,030	273,653
Common stock issued for services		200
Common stock issued for inventory		150,000
Changes in Operating Assets and Liabilities:		
Decrease (increase) in accounts receivable	53,497	832,047
Decrease (increase) in investments	0	(78,328)
Decrease (increase) in inventory	0	(128,174)
Decrease (increase) in organizational costs	0	119
Decrease (increase) in prepaid expenses	5,761	43,699
Increase (decrease) in accounts payable	(112,218)	252,356
Increase (decrease) in accrued expenses	(5,451)	(15,057)
Net Cash Provided (Used) by Operating Activities	(115,888)	822,758
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	0	(317,943)
Purchase of oil and gas properties	(4,356)	(1,161,442)
Net Cash Provided (Used) by Investing Activities	(4,356)	(1,479,385)

CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	28,574	(264,325)
Sale of common stock	0	167,500
Proceeds from borrowing	113,040	605,296
Net Cash Provided (Used) by Financing Activities	$141,614	$ 508,471
NET INCREASE IN CASH	$ 21,370	($ 148,156)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	76,394	224,550
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 97,764	$ 76,394
CASH PAID FOR		
Interest	($ 55,193)	($ 167,359)
Income taxes	0	0
NON-CASH FINANCING ACTIVITIES:		
Common stock issued for services		200
Common stock issued for inventory		150,000

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, 2002 Annual Report on Form 1OKSB. The results of operations for the period ended July 31, 2002 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.

During the first quarter, Deloy Miller CEO and Chairman, advanced the Company $12,506 that has an interest rate of eight percent.

(3) New Accounting Pronouncements

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities, "effective January 1, 2001. SFAS No. 133 (as amended by SFAS 137 AND SFAS 138) requires a company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivatives is a fair value hedge, changes in the fair value of the hedged assets, liabilities or firm commitments are recognized through earnings. If the derivative is a cash flow hedge the effective portion of changes in the fair value of the derivative are recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. The adoption of SFAS No. 133, as amended, did not have a material impact on the Company's consolidated financial statements.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination and SFAS No. 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination whether acquired individually or with a group of other assets. These standards require all future business combinations to be accounted for using the purchase method of accounting. Goodwill will no longer be amortized but instead will be subject to impairment tests at least annually. The Company would have been required to adopt SFAS No. 141 on July 1, 2001, and to adopt SFAS 142 on a prospective basis as of January 1, 2002. The Company has not effected a business combination and carries no goodwill on its balance sheet; accordingly, the adoption of these standards is not expected to have an effect on the Company's financial position or results of operations.

In June 2001, the Financial Accounting Standards Board approved the issuance of SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS 143 establishes accounting standards for the recognition and measurement of legal obligations associated with the retirement of tangible long-lived assets and requires recognition of a liability for an asset retirement obligation in the period in which it is incurred. The provisions of this statement are effective for financial statements issued for financial statements issued for fiscal years beginning after June 15, 2002. The adoption of this statement is not expected to have a material impact on the Company's financial position or results of operations.

SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, addresses accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and expands on the guidance provided by SFAS No. 121 with respect to cash flow estimations. SFAS No. 144 becomes effective for the Company's fiscal year beginning January 1. 2002. There will be no current impact of adoption on its financial position or results of operations.

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. This acreage is made up primarily of development drilling locations. It produces both gas and oil, mainly from the Mississippian age Big Lime Formation. The existing properties contain a minimum three-year inventory of conventional drilling locations.

Miller's current development drilling program is to drill 22 oil and gas wells and 40 gas only wells on its Koppers South Tract and build a six mile gathering system to a local pipeline. Plans call for completion of the program in approximately two years. Miller along with an industry partner will invest more than nine million dollars in the project which has a predicted internal rate of return of above thirty percent.

All 50,000 Tennessee acres are presently being evaluated for their CBM potential. A well drilled in June of 2001 by the company encountered numerous coal seams below 750 feet depth on a 4,000-acre lease that the company has recently acquired. These coal seams reach a maximum thickness of six feet and are presently being evaluated for their CBM potential. In addition, this well has made a conventional Big Lime gas discovery, and three additional locations have been drilled. Two of the wells have been completed and began selling gas in March of 2002. In the fall of 2002, the remaining two wells are scheduled for completion.

The Company is also actively pursuing the acquisition of additional high potential acreage in eastern Tennessee. As of September 12, 2002, the Company has acquired more than 6,500 acres in the current leasing program.

Miller Petroleum's exploration effort is being concentrated in the East Tennessee portion of the Eastern Overthrust Belt. Management has selected two large structures and is actively leasing acreage on both of them. Knox Dolomite wells in the overthrust have reserves in excess of two Bcf gas per well.

Currently, Miller is drilling an oil prospect in Morgan County, Tennessee (Medcalf #1, Tennessee Permit No. 9935) as an offset to the Elmer Howard-White Unit #1 well. Pryor Oil drilled Elmer Howard-White Unit #1 in July of 2002. During drilling operations, the well blew out at a rate of up to 12,000 barrels oil per day from the Trenton Limestone. According to the August 2002 Ky/Tenn Report "before it caught fire, it was flowing at a rate between 200 to 500 barrels an hour, or up to 12,000 barrels a day at flowing pressures estimated at 1,700 psi". To date this is the largest recorded initial production of any well ever reported in the state of Tennessee.

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 $427,461 for the first quarter of its fiscal year 2003, down from the $598,629 in revenues recognized during the first quarter of fiscal year 2002.

Oil and gas revenue for the current quarter was $184,631 up from $121,886 in the first quarter of fiscal 2002. This increase was due primarily to natural gas sales from the Lindsay Land Company.

Service and drilling revenue for the first quarter was $238,049 down from $449,866 for the same quarter last year. This decrease was due to less drilling activity.

During the current quarter, there were not any retail sales, compared to $24,184 during the first quarter of fiscal 2002. This decrease was due to the decline in oilfield activities.

Other revenue for the first quarter of fiscal 2003 was $4,781 up from $2,693 during the same period last year.

The Company's net loss for the current quarter was $137,506, compared to a net loss of $164,660 for the first quarter of fiscal 2002.

Cost of oil and gas sales for the first quarter of fiscal 2003 was $58,729, down from $219,078 in the first quarter of fiscal 2002, due primarily to the decrease in drilling activity.

Selling, general and administrative expenses were $155,327, down from $218,964 in the first quarter of fiscal 2002. This decrease was primarily due to decreases in legal and professional fees.

Salaries and wages for the current quarter were $216,333, up from $179,512 in the first quarter of fiscal 2002 due to the increase in personnel and overtime.

Depreciation, depletion and amortization for the first quarter of fiscal 2003 was $80,030 down from $95,849 in the first quarter of 2002. This decrease was due to a reduction in drilling activities.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

On or about January 20, 2000, the Company filed a complaint against Blue Ridge Group, Inc. in the Chancery Court of Hawkins County at Rogersville, Tennessee, Case No. 13951, asserting that Blue Ridge had breached a Footage Drilling Contract with the Company. Miller asserted that Blue Ridge had breached the said contract by quitting the job without drilling to the required depth, failing to drill a straight hole, and by damaging the well bore by failing to conduct its operations in a good and workmanlike manner in accordance with good industry practice. The Company has asked that it be awarded its initial payment of $37,000.00 to Blue Ridge, damages occasioned by the improper deviation of the hole from the vertical plane; damages for the cost of re-drilling and/or re-working the hole, damages allowed by the parties contract, further and equitable relief to which it may be entitled, and to assess the costs of this cause, including Miller's discretionary costs, to Blue Ridge. On May 10, 2002, the Chancery Court of Hawkins County ruled in favor of Miller Petroleum, Inc. and awarded damages of $97,716.21 plus interest. Subsequently, Blue Ridge Group appealed the decision to the Tennessee Supreme Court.

The Blue Ridge action is pending an the Company believes that its contract with the plaintiff was breached. However, a decision for the defendant would not have a material effect on the Company.

On or about April 12, 2002, the Company filed a complaint against Nami Resources Company, LLC in the Circuit Court for Scott County at Huntsville, Tennessee asserting that Nami had failed to pay for natural gas received and $16,456.12 is justly due and owing to Miller. On or about May 14, 2002, Nami

Resources Company, LLC filed a complaint against Miller Petroleum, Inc. in the United States District Court, Eastern District of Kentucky, London Division, Civil Action No. 02-255-DCR asserting that Miller had breached a contract for the sale and transportation of natural gas asking for relief in the amount of $400,000 plus court costs and attorney fees.

The Nami action is pending and the Company believes that it is justly owed $16,456.12 and does not believe that a contract existed to be breached. However, a decision for Nami would not have a material effect on Miller.

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 10, 2002, the Company received a demand from the attorney of Sherri Parker Lee to pay the entire balance of $250,000 plus interest on a promissory note dated September 7, 2001 within ten days. An interest payment made on September 3, 2002 that was due August 31, 2002 was rejected and the note was declared in default and the note was accelerated. Our attorney has advised the Company that, under the terms of the Loan Agreement and Promissory Note, payment was made in a timely manner.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant duly caused this report to be signed on its behalf by the undersigned hereto duly authorized.

Date: September 13, 2002 MILLER PETROLEUM, INC.

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

By: /s/Lawrence L. LaRue
Lawrence L. LaRue,
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly report of Miller Petroleum, Inc. (the "Company") on Form 10-QSB for the period ending July 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Deloy Miller, Chief Executive Officer, and Lawrence L. LaRue, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge and belief:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: September 13, 2002 /s/Deloy Miller
Deloy Miller,
Chief Executive Officer

Date: September 13, 2002 /s/Lawrence L. LaRue
Lawrence L. LaRue,
Chief Financial Officer