MILLER PETROLEUM INC
Form 10QSB
March 18, 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 January 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:

March 11, 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

	January 31, 2002 Unaudited	April 30, 2001
CURRENT ASSETS		
Cash	$ 118,054	$ 224,550
Accounts receivable - trade-, net	863,454	1,143,300
Inventory	596,142	439,113
Prepaid expenses	36,072	74,011
Total Current Assets	1,613,722	1,880,974
FIXED ASSETS		
Machinery and equipment	1,341,965	1,249,511
Vehicles	446,596	438,851
Buildings	313,335	313,335
Office Equipment	80,560	87,172
Less: accumulated depreciation	(803,191)	(881,690)
Total Fixed assets	1,379,265	1,207,179
OIL AND GAS PROPERTIES (On the basis of successful efforts accounting)	1,884,115	1,050,687
PIPELINE FACILITIES	292,740	336,635
OTHER ASSETS		
Land	511,500	511,500

Investments	500	500
Organization Costs	0	119
Total Other Assets	512,000	512,119
TOTAL ASSETS	$5,681,842	$4,987,594

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable - trade	$ 235,609	$ 134,275
Accrued expenses	62,849	91,910
Notes payable - current portion	516,343	577,270
Total Current Liabilities	814,801	803,455
LONG-TERM LIABILITIES		
Notes payable - related	11,945	89,968
Notes payable	1,720,032	1,207,530
Total Long-Term Liabilities	1,731,977	1,297,498
Total Liabilities	2,546,778	2,100,953
STOCKHOLDERS' EQUITY		
Common Stock: 500,000,000 shares authorized at $0.0001 par value, 8,578,856 and 8,218,656 shares issued and outstanding	858	822
Additional paid-in capital	3,884,144	3,566,480
Retained Earnings	(749,938)	(680,661)
Total Stockholders' Equity	3,135,064	2,886,641
TOTAL LIABILITIES AND STOCKHOLDERS'S EQUITY	$5,681,842	$4,987,594

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 January, 31		For the Six Months Ended January, 31	
	2002	2001	2002	2001
REVENUES				
Oil and gas revenue	$ 937,593	$595,642	$2,781,328	$2,117,434
Sale of equipment and oil and gas properties				127,976
Total Revenue	937,593	595,642	2,781,328	2,245,410
COSTS AND EXPENSES				
Cost of oil and gas sales	345,587	216,704	1,353,821	815,815

Selling, general and administrative	140,428	211,829	454,151	449,779
Salaries and wages	213,267	148,661	587,044	499,654
Depreciation, depletion and amortization	116,541	103,369	333,386	278,315
Interest expense	44,448	38,798	122,203	191,184
Total Costs and Expenses	$ 860,271	$719,361	$2,850,605	$2,234,747
NET INCOME (LOSS)	77,322	(123,719)	(69,277)	10,663
NET EARNING(LOSS) PER SHARE	0.01	(0.02)	(0.01)	0.00
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	8,578,856	7,836,456	8,405,523	7,347,805

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, 2000	7,110,691	$711	$2,462,138	($935,063)	$1,527,786
Common stock issued for cash at $1.00 per share	1,077,600	108	1,077,492	-	1,077,600
Common stock issued for cash at $0.90 per share	50,000	5	44,995	-	45,000
Common stock issued for services at $1.00 per share	5,500	1	5,499	-	5,500
Common stock issued for equipment at $1.00 per share	23,000	2	22,998	-	23,000
Common stock repurchased for $2.00 per share	(45,000)	(5)	(89,995)	-	(90,000)
Common stock repurchased for $1.60 per share	(3,135)	-	(5,000)	-	(5,000)
Warrants (1,123,500) issued for services			48,353		48,353
Net income for the					

year ended April 30, 2001				$254,402	$254,402
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 nine months ended January 31, 2002				($69,277)	($69,277)
Balance January 31, 2002	$8,578,856	$858	$3,884,144	($749,938)	$3,135,064

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

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

	Six Months Ended January 31,2002	Six Months Ended January 31, 2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (69,277)	$ 10,663
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation, depletion and amortization	333,386	278,315
Allowance for bad debts		17,233
Common stock issued for services	200	5,500
Common stock issued for inventory	150,000	
Gain on sale of equipment and oil and gas properties		(123,904)
Changes in Operating Assets and Liabilities:		
Decrease (increase) in accounts receivable	279,846	(317,862)
Decrease (increase) in inventory	(157,029)	3,000
Decrease (increase) in organizational costs	119	59
Decrease (increase) in prepaid expenses	37,939	27,988
Increase (decrease) in accounts payable	101,334	(188,087)
Increase (decrease) in accrued expenses	(29,061)	15,052
Net Cash Provided (Used) by Operating		

Activities	647,457	(272,043)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(292,249)	(266,507)
Sale of oil and gas properties	0	1,874,423
Purchase of oil and gas properties	(1,002,756)	(429,901)
Sale of equipment	0	103,982
Net Cash Provided (Used) by Investing Activities	(1,295,005)	1,281,997
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(184,587)	(2,085,902)
Sale of common stock	167,500	1,122,601
Repurchase of common stock	0	(95,000)
Proceeds from borrowing	558,139	144,620
Net Cash Provided (Used) by Financing Activities	$ 541,052	(913,681)
NET INCREASE IN CASH	$(106,496)	$ 96,273
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	224,550	39,556
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 118,054	$ 135,829
CASH PAID FOR		
Interest	($122,203)	($191,184)
Income taxes	-	-
NON-CASH FINANCING ACTIVITIES:		
Common stock issued for services	200	$ 5,500
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, 2001 Annual Report on Form 10KSB. The results of operations for the period ended January 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 September 7, 2001, we executed two promissory notes, each for $250,000. The notes are in favor of Sherri Ann Parker Lee and William Parker

Lee (a director), respectively. The notes are due September 7, 2003, and bear interest at the rate of 10% during the first year and 7% during the second year. Each note is payable quarterly in arrears, beginning November 31, 2001. Any amounts not paid when due will bear interest after maturity at the lesser of 20% per annum or the maximum rate allowable under applicable law. The notes are secured by five gas wells in the Swan Creek field.

During the second quarter, Herman Gettelfinger, a director exercised a stock option to purchase 100,000 shares of the Company's common stock. In addition, Mr. Gettelfinger purchased working interests in oil and/or gas wells totaling $72,496.

(3) SFAS No. 133. "Accounting for Derivative Instruments and Hedging Activities," as amended, is effective for all fiscal years beginning after June 15, 2000 (as amended by FAS 138). This statement requires recognition of all derivative contracts as either assets or liabilities in the balance sheet and the measurement of them at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of any gains or losses on the hedge with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change. Historically, the Company has not entered into any material derivative contracts either to hedge existing risks or for speculative purposes. The adoption of the new standard on January 1, 2001 did not affect the Company's financial statements.

In December 1999, the SEC issued Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition in Financial Statements" which outlines the basic criteria that must be met to recognize revenue and provided guidance for presentation of revenue and for disclosure related to revenue recognition policies in financial statements filed with the SEC. Adoption of SAB No. 101 did not have a material impact on the Company's financial position or its results of operations.

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 this 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 is required to adopt SFAS No. 141 and 142 on a prospective basis as of January 1, 2002, however, certain provisions of these new Standards may also apply to any acquisitions concluded subsequent to June 30, 2001. Presently, the adoption of these new standards is not expected to have a material impact on the Company's financial condition or results of operations.

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

Miller Petroleum has more than 45,000 acres held by production in Tennessee. 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.

The Company is also actively pursuing the acquisition of additional high potential acreage in eastern Tennessee. As of March 18, 2002, the Company has acquired more than 6,000 acres in the current leasing program.

A well drilled recently (Tennessee Mining, Inc. (Koppers) #22B)has produced in excess of 11,500 barrels of oil through February 28, 2002. The Tennessee Mining, Inc. #22B showed that the oil reservoir has not yet been pressure depleted. The Kopper's 26B, which was drilled in August of 2,001, had 22 feet of oil pay at the base of the Big Lime Formation with an initial production rate of 58 barrels per day. The Koppers 27B had 24 feet of oil pay at the base of the Big Lime formation with an initial production rate of 70 barrels oil per day. These wells strongly indicate that the oil field extends into an adjacent 4,400-acre block of property, which was leased by the Company in March of 2002. The Company plans to begin development of this lease immediately. Three locations are being surveyed as of the date of this report. The Company also plans to drill twelve or thirteen additional oil wells on it's existing Kopper's lease, as well as drilling three natural gas wells on the field's "substantial" gas cap.

During the fourth quarter, Miller plans on completing four wells on the Koppers South tract which were drilled during the third and fourth quarter of the current fiscal years.

About 45,000 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. As of the date of this report, Miller Petroleum has drilled four successful development wells in this new field discovery. In addition, the Company has installed or purchased more than three miles of 3 and 4 inch gathering lines and is selling gas from these wells through the Powell-Clinch Utility District to Woodward Marketing. Initial sales were in the 300 to 500 Mcf/day range. On a portion of this acreage, geological mapping indicates a second Big Lime gas field may be present.

Miller Petroleum's exploration effort is continuing to be concentrated in the East Tennessee portion of the Eastern Overthrust Belt. Management feels that this area has tremendous potential for both oil and gas production, as shown by the development of Swan Creek Field. Knox Dolomite wells in this field have reserves in excess of two Bcf gas per well. Swan Creek Field is also producing substantial amounts of oil from two separate shallower reservoirs.

At this time Miller Petroleum management has identified 12 additional large structures similar to Swan Creek Field in the Tennessee portion of the Eastern Overthrust Belt. After completing a preliminary analysis of seismic data, the company is continuing to acquire leases on two of these features. Both of these structures have been found to be associated with active hydrocarbon seeps. Miller plans to test these structures as aggressively as possible while continuing to identify additional targets in the Eastern Overthrust Belt.

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 also borrow funds to finance equipment purchases. On September 7, 2001, we executed two promissory notes, each for $250,000. The notes are in favor of Sherri Ann Parker Lee and William Parker Lee, respectively. The notes are due September 7, 2003, and bear interest at the rate of 10% during the first year and 7% during the second year. Each note is payable quarterly in arrears, beginning November 31, 2001. Any amounts not paid when due will bear interest after maturity at the lesser of 20% per annum or the maximum rate allowable under applicable law. The notes are secured by five gas wells in the Swan Creek field.

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 $937,593 for the third quarter of its fiscal year 2002, up from the $595,642 in revenues recognized during the third quarter of fiscal year 2001.

The Company's net profit for the current quarter was $77,322, compared to a net loss of $123,719 for the third quarter of fiscal 2001.

Cost of oil and gas sales for the third quarter of fiscal 2002 was $345,587, up from $216,704 in the third quarter of fiscal 2001, due primarily to the increase in drilling activity.

Selling, general and administrative expenses were $140,428, down from $211,829 in the third quarter of fiscal 2001. This decrease was primarily due to decreases in legal and professional fees.

Salaries and wages for the current quarter were $213,267, up from $148,661 in the third quarter of fiscal 2001 due to the increase in drilling activity.

Depreciation, depletion and amortization for the third quarter of fiscal 2002 was $116,541 up from $103,369 in the third quarter of 2001. This increase was due to the increased number of wells put on production.

The Company had revenues of $2,781,328 for the nine months ended January 31, 2002, up from the $2,117,434 in revenues recognized during the nine months ended January 31, 2001. Again, this increase was primarily due to increased drilling activity.

The Company's net loss for the nine months ended January 31, 2002 was ($69,277), compared to net income of $10,663 for the nine months ended January 31, 2001. The net loss was due primarily to equipment failure and repairs.

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 plaintiff 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.

The Blue Ridge action is pending and 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.

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.

At a special meeting of the stockholders on September 26, 2001, a majority of the stockholders resolved that the Incentive Stock Option Plan of Miller Petroleum, Inc. be extended to expire on January 29, 2005; and further resolved that Employee Stock Options granted to Gary G. Bible, Teresa A. Cotton, Melvin C. Myers, Steve W. Letner, Stephen R. Burchfield, Roger Butler, Lawrence LaRue and Ernest F. Payne be adopted, ratified and approved.

Item 5. Other Information.

None; not applicable.

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 has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

MILLER PETROLEUM, INC.

Date: March 18, 2002

By: /s/ Deloy Miller

Deloy Miller, CEO and Director

Date: March 18, 2002

By: /s/ Lawrence L. LaRue

Lawrence L. LaRue, CFO and Director

Date: March 18, 2002

By: /s/ Herbert J. White

Herbert J. White Vice President and Director