

Edgar Filing: MILLER PETROLEUM INC - Form 10QSB

MILLER PETROLEUM INC  
Form 10QSB  
March 23, 2005

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

FORM 10-QSB

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

For the quarterly period ended January 31, 2005  
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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  
-----  
(State or Other Jurisdiction of  
incorporation or organization)

62-1028629  
-----  
(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  
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APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Not applicable.  
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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



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See notes to consolidated financial statements.

### Miller Petroleum, Inc. Consolidated Balance Sheets

|   | January 31<br>2005<br>Unaudited | April 30<br>2004<br>As Restated |
|---|---------------------------------|---------------------------------|
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                 |                                 |
| <b>CURRENT LIABILITIES</b>  |                                 |                                 |
| Accounts payable - trade  | \$ 297,692                      | \$ 335,556                      |
| Accrued expenses  | 160,831                         | 116,011                         |
| Current portion of notes payable -<br>Related parties   | 1,434,000                       | 1,360,000                       |
| Other   | 127,023                         | 176,624                         |
|   | -----                           | -----                           |
| Total Current Liabilities   | 2,019,546                       | 1,988,191                       |
|   | -----                           | -----                           |
| <b>LONG-TERM LIABILITIES</b>  |                                 |                                 |
| 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                       |
|   | -----                           | -----                           |
| <b>STOCKHOLDERS' EQUITY</b>   |                                 |                                 |
| Common Stock: 500,000,000 shares<br>authorized at \$0.0001 par value,<br>9,173,856 and 8,378,856 shares<br>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                       |
|   | -----                           | -----                           |
| <b>TOTAL LIABILITIES AND<br/>STOCKHOLDERS'S EQUITY</b>  | <b>\$5,546,970</b>              | <b>\$5,187,343</b>              |
|   | =====                           | =====                           |

See notes to consolidated financial statements

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

|                              | For the Three Months Ended<br>January 31 |                  | For the Nine Months Ended<br>January 31 |                  |
|------------------------------|--|------------------|---|------------------|
|                              | 2005                                     | Restated<br>2004 | 2005                                    | Restated<br>2004 |
| <b>REVENUES</b>              |  |                  |   |                  |
| 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            |

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|  |           |             |           |              |
|--|-----------|-------------|-----------|--------------|
| 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.

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

|   | Common<br>Shares | Shares<br>Amount | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Total       |
|---|------------------|------------------|----------------------------------|----------------------|-------------|
| Balance, April 30, 2002<br>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,<br>April 30, 2002             | 8,128,856        | 813              | 3,884,144                        | (1,425,873)          | 2,459,084   |
| Issuance of shares for<br>cash                  | 85,000           | 9                | 47,491                           | -                    | 47,500      |

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|   |           |       |             |               |             |
|---|-----------|-------|-------------|---------------|-------------|
| 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

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

|  | For The Nine<br>Months Ended<br>January 31,<br>2005 | As Restated<br>For The Nine<br>Months Ended<br>January 31,<br>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: |   |  |

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|   |              |              |
|---|--------------|--------------|
| 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,<br>BEGINNING OF PERIOD | 2,416        | 3,364        |
|   | -----        | -----        |
| CASH AND CASH EQUIVALENTS,<br>END OF PERIOD       | \$ 48,722    | \$ 20,486    |
|   | -----        | -----        |
| CASH PAID FOR<br>INTEREST                         | \$ (143,386) | \$ (134,375) |
| 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 January 31, 2005 are not necessarily indicative of operating results for the full year.

The consolidated financial statements and other information furnished

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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

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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.

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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

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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

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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.



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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.<br>(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 requirements 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

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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 United 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.  
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None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.  
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None.

Item 3. Defaults Upon Senior Securities.  
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None; not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.  
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None.

Item 5. Other Information.  
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None.

Item 6. Exhibits.  
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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.

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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

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Charles M. Stivers,  
Chief Financial Officer