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MILLER PETROLEUM INC
Form 10-Q
March 16, 2009

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended January 31, 2009

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from _____ to _____

Commission file number: 33-2249-FW

MILLER PETROLEUM, INC.

(Exact name of registrant as specified in its charter)

TENNESSEE

62-1028629

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

3651 BAKER HIGHWAY, HUNTSVILLE, TN

37756

(Address of principal executive offices)

(Zip Code)

(423) 663-9457

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 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. Yes No

Indicate by check mark whether the registrant is a large accelerated
filer, an accelerated filer, a non-accelerated filer, or a smaller reporting
company. See the definitions of "large accelerated filer," "accelerated filer"
and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if smaller reporting company)

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [] No [X]

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

Title of Class	No. of Shares Outstanding at March 11, 2009
Common Stock	15,811,856

MILLER PETROLEUM, INC.
FORM 10-Q
JANUARY 31, 2009

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This report contains forward-looking statements. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements were based on various factors and were derived utilizing numerous assumptions and other factors that could cause our actual results to differ materially from those in the forward-looking statements. These factors include, but are not limited to, the availability of sufficient capital to fund the anticipated growth of our company, fluctuations in the prices of oil and gas, the competitive nature of our business environment, our dependence on a limited number of customers, our ability to comply with environmental regulations, changes in government regulations which could adversely impact our business and other factors. Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the areas of risk described in connection with any forward-looking statements that may be made herein. Readers are cautioned not to place undue reliance on these forward-looking statements

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and readers should carefully review this report in its entirety. Except for our ongoing obligations to disclose material information under the Federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. These forward-looking statements speak only as of the date of this report, and you should not rely on these statements without also considering the risks and uncertainties associated with these statements and our business.

OTHER PERTINENT INFORMATION

Unless specifically set forth to the contrary, when used in this report the terms the "Company," "we," "us," "ours," and similar terms refers to Miller Petroleum, Inc., a Tennessee corporation and our subsidiaries, Miller Rig & Equipment, LLC, Miller Drilling TN, LLC and Miller Energy Services, LLC.

The information which appears on our web site at www.millerpetroleum.com is not part of this report.

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PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

MILLER PETROLEUM, INC. CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	January 31, 2009 Unaudited	April 30, 2008
	-----	-----
CURRENT ASSETS		
Cash	\$ 2,770,083	\$ 42,436
Accounts receivable	1,450	131,302
Accounts receivable - related parties	43,546	5,144
Inventory	52,665	65,856
	-----	-----
Total Current Assets	2,867,744	244,738
Fixed Assets	5,492,465	1,161,019
Less: accumulated depreciation	(863,932)	(595,362)
	-----	-----
Net Fixed Assets	4,628,533	565,657
OIL AND GAS PROPERTIES		
(On the basis of successful efforts accounting)	1,863,711	1,544,577
Land	606,500	496,500
Deferred interest	7,537	-
Prepaid offering cost	584,115	-
Cash - restricted	75,500	83,000

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	-----	-----
Total Other Assets	1,273,652	579,500
	-----	-----
TOTAL ASSETS	\$ 10,633,640	\$ 2,934,472
	=====	=====

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

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MILLER PETROLEUM, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	January 31, 2009 Unaudited	April 30, 2008
	-----	-----
CURRENT LIABILITIES		
Accounts payable - trade	\$ 374,685	\$ 389,275
Accrued expenses	124,382	210,198
Unearned revenue	63,065	-
Notes payable - related parties	-	80,200
Current portion of notes payable	1,860,339	646,430
Income taxes payable	3,962	-
Shares subject to redemption	-	4,350,000
	-----	-----
Total Current Liabilities	2,426,433	5,676,103
LONG-TERM LIABILITIES		
Deferred income taxes payable	223,952	-
Notes payable - other	45,664	-
	-----	-----
Total Long-term Liabilities	269,616	-
Total Liabilities	2,696,049	5,676,103
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, 500,000,000 shares authorized at \$0.0001 par value, 15,616,856 and 11,666,856 shares issued and outstanding, respectively ..	1,562	1,166
Additional paid-in capital	8,475,255	6,949,761
Accumulated earnings (deficit)	(539,226)	(9,692,558)
	-----	-----
Total Stockholders' Equity (Deficit)	7,937,591	(2,741,631)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 10,633,640	\$ 2,934,472
	=====	=====

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

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MILLER PETROLEUM, INC. CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	For the Three Months Ended January 31, 2009	For the Three Months Ended January 31, 2008	For the Nine Months Ended January 31, 2009	For Mont Jan
	-----	-----	-----	-----
REVENUES				
Oil and gas revenue	\$ 62,093	\$ 181,582	\$ 472,993	\$
Service and drilling revenue	550,745	63,455	839,686	
	-----	-----	-----	-----
Total Revenue	612,838	245,037	1,312,679	
COSTS AND EXPENSES				
Cost of oil and gas revenue	145,569	13,537	203,968	
Cost of service and drilling revenue	498,953	58,512	1,001,299	
Selling, general and administrative	643,581	413,972	1,924,499	1
Depreciation, depletion and amortization	201,473	57,350	406,319	
	-----	-----	-----	-----
Total Costs and Expenses	1,489,576	543,371	3,536,085	1
	-----	-----	-----	-----
LOSS FROM OPERATIONS	(876,738)	(298,334)	(2,223,406)	
OTHER INCOME (EXPENSE)				
Interest income	15,016	991	45,235	
Interest expense	(17,114)	(23,859)	(67,347)	
Loan fees and costs	(23,107)	(15,000)	(97,355)	
Gain on sale of equipment	-	-	8,550	
Gain on sale of oil and gas properties	-	-	11,715,570	
	-----	-----	-----	-----
Total Other Income (Expense)	(25,205)	(37,868)	11,604,653	
	-----	-----	-----	-----
NET INCOME (LOSS) BEFORE INCOME TAXES	(901,943)	(336,202)	9,381,247	(1
INCOME TAX EXPENSE (BENEFIT)	(345,846)	-	227,914	
	-----	-----	-----	-----
NET INCOME (LOSS)	\$ (556,097)	\$ (336,202)	\$ 9,153,333	\$ (1
	=====	=====	=====	=====
BASIC AND DILUTED- INCOME (LOSS) PER SHARE	\$ (0.04)	\$ (0.02)	\$ 0.65	\$
BASIC AND DILUTED- WEIGHTED AVERAGE				
SHARES OUTSTANDING	15,616,856	14,466,856	14,045,298	14

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

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MILLER PETROLEUM, INC.
 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
 (UNAUDITED)

	For the Nine Months Ended January 31, 2009	For the Nine Months Ended January 31, 2008
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	\$ 9,153,333	\$ (1,052,345)
Depreciation, depletion and amortization	406,319	167,598
Adjustments to Reconcile Net Loss to Net Cash Provided (Used) by Operating Activities:		
Gain on sale of equipment	(8,550)	(89,369)
Gain on sale of oil and gas properties	(11,715,570)	-
Amortization of unearned compensation	-	180,748
Issuance of stock for financing cost	-	34,000
Issuance of stock for services	412,000	-
Issuance of stock options for services	17,800	-
Warrant cost	97,089	24,293
Changes in Operating Assets and Liabilities:		
Accounts receivable	91,449	(39,290)
Inventory	13,191	(75,451)
Bank overdraft	-	(16,933)
Accounts payable	(14,590)	71,425
Accrued expenses	(85,816)	95,874
Unearned revenue	63,065	-
Income taxes payable	227,914	-
Restricted cash	7,500	-
	-----	-----
Net Cash Used by Operating Activities	(1,334,866)	(699,450)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment and improvements	(4,329,881)	-
Sale of oil and gas properties	13,514,090	-
Purchase of oil and gas properties	(1,268,417)	-
Purchase of land	(110,000)	-
Proceeds from sale of equipment	19,000	104,603
Proceeds from sale of wells and pipeline	-	576,500
Deferred interest	(7,537)	-
	-----	-----
Net Cash Provided by Investing Activities	7,817,255	681,103
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(732,786)	(285,873)
Proceeds from borrowing	1,912,159	318,200
Stock repurchase	(4,350,000)	-
Prepaid offering cost	(584,115)	-
	-----	-----

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Net Cash Provided (Used) by Financing Activities	(3,754,742)	32,327
	-----	-----
NET INCREASE IN CASH	2,727,647	13,980
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD ...	42,436	0
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 2,770,083	\$ 13,980
	=====	=====
CASH PAID FOR INTEREST	\$ 67,347	\$ 40,668
SUPPLEMENTAL DISCLOSURE OF NON CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued for prepaid offering costs ...	\$ 115,000	\$ -

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

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MILLER PETROLEUM, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(1) ORGANIZATION AND DESCRIPTION OF BUSINESS

These consolidated financial statements include the accounts of Miller Petroleum, Inc. and the accounts of its subsidiaries, Miller Pipeline Company, Inc for the comparative period ended January 31, 2008, only, since this subsidiary was sold in December 2007. All inter-company balances have been eliminated in consolidation.

These consolidated financial statements include the accounts of Miller Petroleum, Inc. and the accounts of its subsidiaries, Miller Drilling TN, LLC, Miller Rig & Equipment, LLC and Miller Energy Services, LLC for the comparative period ended January 31, 2009 only, since these subsidiaries started up in the quarter ended October 31, 2008. All inter-company balances have been eliminated in consolidation.

The Company's principal business consists of oil and gas exploration, production and related property management in the Appalachian region of eastern Tennessee. The Company's corporate offices are in Huntsville, Tennessee. The Company operates as one reportable business segment, based on the similarity of activities.

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 Company's April 30, 2008 Annual Report on Form 10-KSB. The results of operations for the period ended January 31, 2009 are not necessarily indicative of operating results for the full year. In the opinion of management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation have been included.

(2) ACCOUNTING POLICIES

RECLASSIFICATIONS

Certain reclassifications have been made to the prior period amounts presented

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to conform to the current period presentations.

INVENTORY

Inventory consists primarily of crude oil in tanks and is carried at cost.

RECENT ACCOUNTING PRONOUNCEMENTS

All issued accounting pronouncements but not yet effective have been determined to be not applicable by management and once adopted is not expected to have a material impact on the financial position of the Company.

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(3) SALE OF OIL AND GAS PROPERTIES AND EQUIPMENT PURCHASES

On June 13, 2008 we sold approximately 30,000 acres of oil and gas leases and eight drilled but not completed wells to Atlas America, LLC ("Atlas") for \$19.625 million. At that time Wind City Oil & Gas, LLC and related entities were paid \$10.6 million for 2.9 million shares of the Company's common stock, eight drilled but not completed gas wells, two producing gas wells, and a RD20 drilling rig and related equipment in settlement of all litigation between the parties.

On November 10, 2008, the Company finalized a drilling contract with Atlas Energy Resources, LLC, an affiliate of Atlas. This is a two year agreement that will utilize two of the Company's drilling rigs operating in the East Tennessee area of the Appalachian Basin. We acquired a 2007 COPCO Model RD III drilling rig and related equipment drilling rig from Atlas to assist in drilling the wells. This rig has been mobilized to the site and has commenced drilling operations. The Company borrowed \$1,850,125, secured by a certificate of deposit, to purchase this drilling rig.

After the sale was completed, the Company paid off all notes, all undisputed payables, transaction fees of \$600,000 to Cresta Capital/Consortium, and paid a transaction fee of \$300,000 and issued 2,500,000 shares of common stock valued at \$825,000 to Scott Boruff, a former associate of Cresta Capital. Boruff was subsequently hired effective August 1, 2008 as the new CEO of the Company (see Commitments note below). He is a son-in-law of Deloy Miller the former CEO and current Chairman of the Board of Directors. Cresta was also granted a warrant to purchase one million shares of the Company's common stock for \$1.00 per share for a period expiring three years after the grant date and cancelled the five million performance warrants that it held.

The net gain on this sale of oil and gas property transaction was \$11,715,570.

A third party interested in aforementioned sale of the oil and gas properties is contesting the sale, see the Litigation note below.

(4) PARTICIPANT RECEIVABLES AND RELATED PARTY RECEIVABLES

Participant and related party receivables consist of receivables contractually due from our various joint venture partners in connection with routine exploration, betterment and maintenance activities. Our collateral for these receivables generally consists of lien rights over the related oil producing properties at both April 30, 2008 and January 31, 2009.

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(5) LONG-TERM DEBT, WARRANTS, LOAN FEES AND RESTRICTED CASH

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The Company had the following debt obligations at January 31, 2009 and April 30, 2008.

	January 31, 2009	Ap 2008
	-----	-----
Notes Payable - Related Parties:		
Note payable to the Company's Chairman of the Board of Directors, Deloy Miller, secured by equipment and truck titles,		
interest at 10.752%, due October 18, 2007	\$ -	\$ -
	-----	-----
	-	-
Notes Payable - Other		
Note payable to American Fidelity Bank, secured by a trust deed on property, bearing interest at prime, due in monthly payments of \$2,500, with the final payment due in August 2008		
	-	-
Note payable to Jade Special Strategy, LLC, unsecured, dated March 7, 2007, bearing interest based on a sliding scale approximating 120% and due April 30, 2008		
	-	-
Note payable to Jade Special Strategy, LLC, unsecured, dated April 17, 2007, bearing interest based on a sliding scale approximating 120% and due April 30, 2008		
	-	-
Note payable to Jade Special Strategy, LLC, unsecured, dated August 2, 2007, bearing interest based on a sliding scale approximating 120% and due April 30, 2008		
	-	-
Note payable to Petro Capital Securities, unsecured, dated May 24, 2007, bearing interest at 10% and due June 30, 2008		
	-	-
Note payable to P & J Resources, Inc., unsecured, dated April 2, 2008, bearing interest at 8%		
	-	-
Note payable to Commercial Bank, secured by cash	1,850,000	
Note payable to GMAC Financing, secured by vehicle, dated June 27, 2008, bearing zero interest, due in monthly payments of \$861.58, with the final payment due June 27, 2012	56,003	
	-----	-----
	1,906,003	
	-----	-----
Total Notes Payable	1,906,003	
Less current maturities on related party notes payable	-	
Less current maturities on other notes payable	1,860,339	
	-----	-----
Notes Payable - Long-term	45,664	
	=====	=====

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(6) STOCKHOLDERS' EQUITY

During the nine months ended January 31, 2009, we issued the following securities: 3,600,000 shares, which included 2,500,000 shares issued to Mr. Boruff and 1,000,000 warrants exercisable at \$1.00 per share for a period of three years to Cresta Capital/Consortium attributed as a cost of the sale of oil and gas properties transaction, as well as 800,000 shares to employees and a consultant as compensation, which in the aggregate were valued at \$825,000 and \$176,000 expensed, respectively; 300,000 shares for past services to the directors valued at \$99,000 and expensed; and penalty warrants for 360,000 common shares at a price of \$1.15 per share with a five-year term valued and expensed at \$97,089.

In August 2008 we engaged a broker-dealer and member of FINRA to assist us in raising capital by means of a private placement of securities. As initial compensation for their services, we paid 250,000 shares of our common stock, valued at \$115,000.

We also repurchased 2,900,000 shares of common stock at \$4,350,000, which was previously recorded as equity subject to being repurchased as of April 30, 2008.

In October, 2008 we issued 100,000 shares of our common stock to two individuals as compensation for a finder's fee related to the introduction of our company to a broker-dealer, and expensed at \$22,000.

The Company presents "basic" earnings (loss) per share and, if applicable, "diluted" earnings per share pursuant to the provisions of Statement of Financial Accounting Standards No. 128. The calculation of diluted earnings per share is similar to that of basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares, such as those issuable upon the exercise of stock options and warrants, were issued during the period. Since the Company had a net loss for the nine month period ended January 31, 2008, the assumed effects from the exercise of outstanding options and warrants would have been anti-dilutive, and, therefore only basic earnings per share is presented.

There were no dilutive effects of the common stock equivalents for the outstanding vested stock options and warrants for the nine months ended January 31, 2009 since the exercise price of such warrants and options exceeded the market price of the Company's common stock at January 31, 2009.

Subsequent to January 31, 2009, on February 12, 2009, a warrant holder exercised 200,000 warrant options using a cashless exercise option which netted them 195,000 common shares. These new shares increased the total outstanding shares to 15,811,856.

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(7) STOCK OPTIONS

The Company has adopted SFAS No. 123R, "Share Based Payments". SFAS No. 123R requires companies to expense the value of employee stock options and similar awards and applies to all outstanding and vested stock-based awards. In computing the impact, the fair value of each option is estimated on the date of grant based on the Black-Scholes options-pricing model utilizing certain assumptions for a risk free interest rate; volatility; and expected remaining lives of the awards. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these

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estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and the Company uses different assumptions, the Company's stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. In estimating the Company's forfeiture rate, the Company analyzed its historical forfeiture rate, the remaining lives of unvested options, and the amount of vested options as a percentage of total options outstanding. If the Company's actual forfeiture rate is materially different from its estimate, or if the Company reevaluates the forfeiture rate in the future, the stock-based compensation expense could be significantly different from what we have recorded in the current period. The impact of applying SFAS No. 123R approximated \$265,800 in additional compensation expense during the nine months ended January 31, 2009 and none in 2008. Such amount is included in general and administrative expenses on the statement of operations.

For the nine months ended January 31, 2009, the Company recorded stock-based compensation expense of \$17,800 related to stock options granted during the period.

During the nine months ended January 31, 2009, the Company issued 1,000,000 warrants exercisable at \$1.00 per share for a period of three years attributed as a cost of the sale of oil and gas properties transaction valued at \$174,000 and expensed. Penalty warrants were recorded for 360,000 common shares at a price of \$1.15 per share with a five-year term valued and expensed at \$97,089.

A summary of the stock options and warrants as of January 31, 2009 and 2008 and changes during the periods is presented below:

	Nine Months Ended January 31, 2009		Nine Months Ended January 31, 2008	
	Number of Options and Warrants	Weighted Average Exercise Price	Number of Options and Warrants	Weighted Average Exercise Price
Balance at April 30 .	7,535,000	\$ 0.40	7,055,000	\$ 0.38
Granted	1,735,000	0.89	360,000	1.15
Exercised	-	-	-	-
Expired	-	-	-	-
Cancelled	5,100,000	0.23	-	-
	4,170,000	0.83	7,415,000	0.39
Options exercisable at January 31	3,880,000	\$ 0.86	2,356,250	\$ 0.75

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The following table summarizes information concerning stock options and warrants outstanding and exercisable at January 31, 2009:

Options and Warrants Outstanding	Options and Warrants Exercisable
Weighted Average	Weighted
Weighted	Weighted

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Range of Exercise Price	Number Outstanding	Remaining Contractual Life	Average Exercise Price	Number Exercisable	Average Exercise Price
\$0.01 to 0.44	575,000	5.8	\$ 0.24	325,000	\$ 0.18
0.50	1,000,000	1.3	0.50	1,000,000	0.50
0.63 to 0.86	75,000	0.8	0.82	75,000	0.82
1.00 to 1.15	2,520,000	3.0	1.09	2,480,000	1.09
	----- 4,170,000 =====	2.9	----- 0.83 =====	----- 3,880,000 =====	----- 0.86 =====

All options and warrants were issued at the fair market of common stock on the date of grant.

(8) COMMITMENTS

On August 6, 2008 the Board of Directors employed Scott M. Boruff as CEO of the Company. The employment contract, as amended, provided for the following compensation:

- o Base salary of \$250,000 per annum, with provision for cost-of-living increases.
- o Options to purchase 250,000 shares of the Company's common stock at an exercise price per share of \$0.33, with vesting in equal annual installments over a period of four years.
- o A restricted stock grant of 250,000 shares of common stock, with vesting in equal annual installments over a period of four years.
- o Incentive Compensation - For each year of the employment term, (i) cash up to 100% of base salary and (ii) up to 100,000 shares of restricted common stock, in both instances based upon, and subject to, two performance benchmarks, gross revenue and EBITDA. One half of each element of incentive compensation is earned if the gross revenue benchmark is achieved, and the other half of each element is earned if the EBITDA benchmark is achieved.

In August 2008 we engaged a broker-dealer and member of FINRA to assist us in raising capital by means of a private placement of securities. As initial compensation for their services, we paid the firm a \$25,000 retainer, issued the firm's assigns 250,000 shares of our common stock, valued at \$115,000 and agreed to pay a monthly consulting fee of \$5,000. Upon the successful completion of the private offering we will be obligated to pay the firm certain cash compensation and issue them up to an additional 150,000 shares of our common stock in amounts to be determined based upon the gross proceeds received by us from the financing.

(9) LITIGATION

CNX Gas Company, LLC (CNX) commenced litigation in the Chancery Court of Campbell County, State of Tennessee on June 11, 2008 (CNX Gas Company, LLC vs. Miller Petroleum Inc., Civil Action No. 08-071) to enjoin the Registrant from assigning or conveying certain leases described in the Letter of Intent signed by CNX and the Company on May 30, 2008 (the "Letter of Intent"); to compel the Company to specifically perform the assignments as described in the Letter of Intent; and for damages. A Notice of Lien Lis Pendens was issued June 11, 2008. The Company moved for entry of summary judgment dismissing the claims asserted

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against it by CNX and on January 30, 2009 the court found that the claims of CNX had no merit. The court granted the Company's motion and dismissed all claims asserted by CNX in that action. CNX has appealed the ruling.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

EXECUTIVE SUMMARY

We are an exploration and production company that utilizes seismic data, and other technologies for geophysical exploration and development of oil and gas wells. We have partial ownership in 20 producing oil wells and 30 producing gas wells. In addition to our engineering and geological capabilities, we have work-over rigs, dozers, roustabout crews and equipment to set pumping units, tanks and lay flow lines, winch trucks and trailers for traveling support, backhoes, ditchers, fusion machines and welders for pipeline and compression installation, as well as other equipment necessary to take a drilling program from the development stage to completion. We also sell rigs, oilfield trailers, compressors and other miscellaneous oil and gas production equipment.

During the first nine months of fiscal year 2009 we completed two transactions which we believe had both a positive impact on our balance sheet and removed certain historical obstacles in our continued growth. These transactions included:

SALES OF LEASES AND WELLS TO ATLAS ENERGY RECOURSES, LLC

Effective as of June 13, 2008 we entered into an agreement with Atlas Energy Resources, LLC pursuant to which we assigned to Atlas Energy:

- o An unencumbered, undivided 100% working interest and an 80% net revenue interest in and to the oil and gas lease comprising 27,620 acres known as Koppers North and Koppers South and located in Campbell County, Tennessee; and an unencumbered, undivided 100% interest and an 82.5% net revenue interest (net of a 5% overriding royalty interest to us) in and to the oil and gas lease comprising 1,952 acres adjacent to Koppers North and Koppers South and located in Campbell County, Tennessee; and
- o An unencumbered, undivided 100% working interest and an 80% net revenue interest in eight gas wells on Koppers South. We have the option to repurchase the wells within one year form the closing date or within 30 days after the pipeline to be built by Atlas Energy has been completed and is ready to accept gas for transport.

The transaction is subject to unwinding pursuant to a pending litigation between our company and CNX Gas Company LLC as previously disclosed. Transferring any of the leases or any interest thereon was also subject to a 60-day standstill period which has since expired.

The aggregate consideration for the assignment of the leases and wells to Atlas Energy was \$19,625,000, \$9,025,000 of which was paid us and the remaining \$10,600,000 of which was paid directly to Wind City Oil & Gas, LLC in consideration of a settlement of claims between Wind City and our company described below.

As part of the transaction, we also agreed to contract with Atlas Energy for two rigs for two years to drill wells, commencing a significant commitment to contract drilling. To give Atlas Energy the level of service required, during the first quarter of fiscal 2009 we acquired a 2007 COPCO Model RD III drilling

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rig and related equipment drilling rig from Atlas to assist in drilling the wells. This rig has been mobilized to the site and has commenced drilling operations. We borrowed \$1,850,125, secured by a certificate of deposit, to purchase this drilling rig.

For two years after the closing date, Atlas Energy granted us the opportunity to bid on any other drilling or service work that Atlas Energy bids on in the State of Tennessee. In addition, we entered into:

- o a natural gas transportation agreement with Atlas Energy which provides us access to the Atlas Volunteer Pipeline, to the extent that capacity is available, on substantially the same terms as those offered to the producers delivering into the system; and
- o a natural gas processing agreement pursuant to which Atlas Energy will provide gas processing services to us on substantially the same terms as those services are provided to other producers delivering gas into the Atlas Volunteer Pipeline and deliver back to us gas with a heating value of 1,100 BTUs per cubic foot.

SETTLEMENT OF WIND CITY LITIGATION

Effective as of June 13, 2008, we also settled all issues and controversies with Wind City Oil & Gas, LLC ("Wind City"), Wind Mill Oil & Gas, LLC ("Wind Mill") and Wind City Oil & Gas Management, LLC ("WCOG") pending in the previously disclosed Tennessee litigation, Tennessee arbitration, and litigation in the Southern District of New York. Pursuant to the settlement, we paid Wind City and/or WCOG \$10,600,000 for the re-purchase of the 2,900,000 shares of our common stock and reacquisition of all leases previously assigned by us to Wind City, Wind Mill or WCOG, all wells and equipment associated with these leases, all pipeline rights and rights of way, all contract rights, and all other equipment, property and real property rights. As set forth above, we used a portion of the proceeds from the Atlas Energy transaction to pay the settlement amounts.

OUR CURRENT FOCUS

During the third quarter of fiscal 2009 we acquired leases for an additional 655 acres for aggregate consideration of approximately \$84,000, bringing the total leases acquired for the nine months ended January 31, 2009 to 5,007 acres for approximately \$666,000. The terms of these leases which have a net revenue interest of 87.5% run from three to five years. We are presently reviewing these leases, as well as our other existing leases, to determine the capital requirements and timing for drilling additional wells. To expand our operations by drilling on these leases will require additional capital. See discussion under LIQUIDITY. At present we have approximately 14,511 acres of oil and gas leases. This represents a loss of 3,328 acres from the second quarter, which is the result of allowing marginal leases to expire in Roane and Campbell Counties in Tennessee. The expired leases were primarily from Campbell County. We drilled three wells in the Harriman Prospect in Campbell County and from the geological data provided by these wells, we determined that the northeastern third of our previous leasing activity was no longer a viable area to be in and we allowed these leases to expire on their 5-year anniversary. As a part of the previously mentioned sale to Atlas Energy, we retained a 5% royalty interest on a 1,930 acre tract that we expect to be the subject of Atlas Energy drilling. When wells are developed on this acreage, we stand to share in any profit they create. Additionally, we retained the right to participate in up to ten wells with a 25% working interest without promote.

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With the closing of Atlas Energy transaction and the settlement of the Wind City litigation our management is now able to focus the majority of its efforts on growing our company. During fiscal 2009 we have augmented our senior management through the hiring of Mr. Scott M. Boruff to serve as our CEO and Mr. Paul W. Boyd to serve as our Chief Financial Officer. We are also continuing to focus our short-term efforts on five distinct areas, including:

- o Investment partnership management pursuant to which we will seek to drill additional wells, concentrating on the East Tennessee portion of the Southern Appalachian Basin with emphasis in horizontal drilling in Devonian Shale,
- o Organically growing production through drilling for own benefit on existing leases, leveraging our 100,000 plus well log database with a view towards retaining the majority of working interest in the new wells,
- o Expanding our contract drilling and service capabilities and revenues, including through our drilling contract with Atlas Energy and through the purchase of an additional vertical and horizontal drilling rig,
- o Expand our leasing capabilities by implementing strategies unique to the gas and oil industry to secured leases and enter into new partnerships to increase monetary capabilities, and
- o Increase our overall production through economically viable acquisitions of additional wells.

Our ability, however, to implement one or more of these goals is dependent both upon the availability of additional capital. To fully expand our operations as set forth above, we will need up to \$15 million for the purchase of additional drilling equipment and up to \$50 million to fund the balance of our expansion plans. To provide the expansion capital, we are seeking to leverage our existing assets as well as seek to raise additional capital through the sale of equity and/or debt securities. To facilitate these capital raising efforts, we have retained a broker-dealer and member of FINRA to assist us and are attempting to raise capital in a private offering. While our management has devoted significant time to these efforts during 2009, we have not been successful in raising any of these funds. Our ability to fully implement our expanded business model, however, is dependent on our ability to raise the additional capital on a timely basis so as to take advantage of the opportunities we presently have available to us. We face a number of obstacles, however, in raising the additional capital, including the relative size of our company, the low trading price of our stock and the lack of liquidity in the capital markets in general and small-cap companies in particular. If we are not able to raise the capital as required, we will be unable to fully implement our expanded business model and will need to delay future expansion as well as further purchases of leases.

RESULTS OF OPERATIONS

REVENUES

Oil and gas revenue represents revenues generated from the sale of oil and natural gas produced from the wells in which we have a partial ownership interest. Oil and gas revenue is recognized as income as production is extracted and sold. We reported decreases in oil and gas revenues for both the three and nine months ended January 31, 2009 from the comparable periods in fiscal 2008. The decrease in oil and gas revenue was a result of the overall unfavorable mix of production and pricing. For example, for the quarter ended January 31, 2009 as compared to the quarter ended January 31, 2008, oil production was up slightly, but the price was down significantly. Both production and pricing were

down for natural gas. For the nine months ended January 31, 2009 pricing for both oil and gas increased as compared to the nine months ended January 31, 2008, but was offset by decreases in production, primarily of natural gas. The overall impact caused oil and gas revenue to decrease for the three and nine months ended January 31, 2009 as compared to the three and nine months ended January 31, 2008. At January 31, 2009 oil was priced at \$41.73 per barrel versus \$91.67 at January 31, 2008 and at January 31, 2009 natural gas was \$4.42 per Mcf as compared to \$8.07 per Mcf at January 31, 2008.

For the three months ended January 31, 2009 we sold 1,448 barrels of oil and 13,248 Mcf of natural gas as compared to 1,202 barrels of oil and 14,344 Mcf of natural gas during the comparable period in fiscal 2008. Our decrease in revenues for the three months ended January 31, 2009 is also attributable to the price decreases in oil and natural gas. During the three months ended January 31, 2009 our average sales price per barrel of oil was \$31.23 as compared to \$84.69 during the three months ended January 31, 2008. During the three months ended January 31, 2009 as compared to the three months ended January 31, 2008 our average sales price per Mcf of natural gas was \$6.44 as compared to \$7.12.

For the first nine months of fiscal year 2009 we produced 3,563 barrels of oil and 32,165 Mcf of natural gas as compared to 3,607 barrels of oil and 58,117 Mcf of natural gas during the comparable period in fiscal 2008. This decrease in natural gas production was primarily due to the sale of eight gas wells in Campbell County, Tennessee in December 2007. During the first nine months of fiscal year 2009 our average sales price per barrel of oil was \$82.70 as compared to \$74.00 during the first nine months of fiscal year 2008, and our average sales price per Mcf of natural gas during the first nine months of fiscal year 2009 was \$8.95 as compared to \$6.70 during the first nine months of fiscal year 2008. We anticipate oil and gas production levels to be similar in the fourth quarter of fiscal 2009 to what it was in the third quarter.

Service and drilling revenue represents revenues generated from drilling, maintenance and repair of third party wells. Service and drilling income is recognized at the time it is both earned and we have a contractual right to receive the revenue. Our service and drilling revenue increased approximately 768% for the three months ended January 31, 2009 as compared to the three months ended January 31, 2008. During the three months ended January 31, 2009 we drilled six wells for Atlas Energy, representing \$437,000 of revenue, as part of our two-year drilling contract with them. We completed drilling in late January 2008; however, according to Atlas Energy's road construction schedule, we expect to resume drilling in late March or early April. Depending on the price of oil in the fourth quarter, we may or may not strive to sell all of our production.

EXPENSES

We follow the successful efforts method of accounting for our oil and gas activities. Accordingly, costs associated with the acquisition, drilling and equipping of successful exploratory wells are capitalized. During the nine months ended January 31, 2009 we capitalized approximately \$1,268,000 of costs associated with the acquisition, drilling and equipping of these wells as compared to none during the comparable periods in fiscal year 2008. However, geological and geophysical costs, delay and surface rentals and drilling costs of unsuccessful exploratory wells are charged to expense as incurred and are included in the cost of service and drilling revenue. Finally, costs of drilling development wells are capitalized; however, we did not drill any development wells during either period. Upon the sale or retirement of oil and gas properties, the cost thereof and the accumulated depreciation or depletion are removed from the accounts and any gain or loss is credited or charged to operations.

The cost of oil and gas revenue also represents costs associated with contract fees we pay third parties to monitor the oil wells and record production. Gas production is metered and read monthly by third party companies which are specialists. As a percentage of oil and gas revenue, costs of oil and gas revenue was approximately 234.4% for the three months ended January 31, 2009 as compared to 7.5% for the three months ended January 31, 2008. Two new gas wells were added during the quarter ended January 31, 2009 and thus, completion costs were higher for the quarter. This is the primary reason this percentage made such a jump this quarter. As a percentage of oil and gas revenue, costs of oil and gas revenue was approximately 43.1% for the first nine months of fiscal year 2009 as compared to approximately 10.5% for the first nine months of fiscal year 2008. These increases reflect the increased cost of operating the wells, in part due to fuel cost. We anticipate that our cost of oil and gas revenues will proportionality increase as additional wells are connected.

The cost of service and drilling revenue represents direct labor costs of employees associated with these services, as well as costs associated with equipment, parts and repairs. The cost of service and drilling revenue has risen significantly for the three and nine months ended January 31, 2009 as compared to the three and nine months ended January 31, 2008. As previously discussed, we drilled six wells for Atlas Energy during the third fiscal quarter of 2009 and expense increased accordingly. As a percentage of service and drilling revenue, the cost of service and drilling revenue was 90.6% as compared to 92.2% for the three months ended January 31, 2009 and 2008, respectively.

Selling, general and administrative expense includes salaries, general overhead expenses, insurance costs, professional fees and consulting fees. The increases in the three and nine months ended January 31, 2009 as compared to the three and nine months ended January 31, 2008 primarily reflects legal and professional fees associated with the sales of the leases to Atlas Energy and the settlement of the Wind City litigation, together with increased compensation expense, resulting from the addition of executive management as previously discussed. As a percentage of total revenue, selling, general and administrative expense decreased to approximately 105.1% for the three months ended January 31, 2009 as compared to approximately 168.9% for the comparable period in fiscal 2008 and approximately 146.6% for the first nine months of fiscal 2009 as compared to approximately 172.9% for the first nine months of fiscal 2008. We anticipate selling, general and administrative expense to remain static in the fourth fiscal quarter of 2009.

Depreciation, depletion and amortization of capitalized costs of proved oil and gas properties is provided on a pooled basis using the units-of-production method based upon proved reserves. Acquisition costs of proved properties are amortized by using total estimated units of proved reserves as the denominator. All other costs are amortized using total estimated units of proved developed reserves. The increase in depreciation, depletion and amortization in the three and nine months ended January 31, 2009 as compared to the three and nine months ended January 31, 2008 reflects an increase in the amount of depreciation due to the purchase of equipment during the first nine months of fiscal year 2009.

The increase in interest income for the fiscal 2009 periods as compared to the fiscal 2008 periods results from larger investible funds associated with the Atlas Energy transaction in June, 2008 as previously discussed.

The decrease in interest expense for the fiscal 2009 periods as compared to the fiscal 2009 periods reflects the satisfaction of certain loans during the nine months ended January 31, 2009.

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Loan fees and costs in the first nine months of fiscal year 2009 represents non-cash expenses related to the fair value of warrants owed in connection with a prior financing transaction.

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During the first nine months of fiscal year 2009 we recorded a one time gain of \$11,715,570 on the sale of the oil and gas leases to Atlas Energy and the concurrent settlement of the Wind City litigation as described elsewhere herein. As part of the settlement we repurchased 2,900,000 shares of our common stock for \$4,350,000 which is reflected on our balance sheet as treasury shares. As a result of these one-time transactions, while we reported a net loss of \$556,097 for the three months ended January 31, 2009 we reported net income of \$9,153,333 for the first nine months of fiscal year 2009. We do not anticipate that we will enter into similar transactions in future periods.

LIQUIDITY

Liquidity is the ability of a company to generate adequate amounts of cash to meet the enterprise's needs for cash. At January 31, 2009 we had working capital of \$441,311 as compared to a working capital deficit of \$5,431,365 at April 30, 2008. This change primarily reflects the net cash to us from the sale of the leases and wells to Atlas Energy and the concurrent settlement of Wind City litigation and the satisfaction of the liability for stock repurchase.

Net cash used by operating activities in the fiscal 2009 period primarily reflects the gain from the settlement of the Wind City litigation, partially offset by increases in income taxes payable, and issuance of stocks, warrants and options for services. In the fiscal 2008 period we also used cash to pay professional and other fees associated with the then ongoing Wind City litigation. Net cash provided by investing activities in the fiscal 2009 period reflects the net cash we received from the Atlas Energy transaction, partially offset by the purchase of additional drilling equipment and vehicles and funds used for the purchase of a lease and capitalized costs associated with the purchase of oil and gas properties, land, and two producing gas wells from Wind City. Net cash provided by investing activities in the fiscal 2008 period reflected the sale of equipment, wells and a pipeline. Net cash used in financing activities for the fiscal 2009 period reflects the repayment of notes payable and the repurchase of shares of our common stock as part of the Wind City settlement, partially offset by proceeds from borrowings primarily used to finance the purchase of equipment. During the fiscal 2008 period cash provided by financing activities represented the proceeds from short-term borrowings partially offset by payments on notes payable.

Our working capital is sufficient to fund our current level of operations for the foreseeable future. We currently have sufficient equipment for any vertical well drilling to satisfy our drilling contract with Atlas Energy. However, in order to implement our business strategy to expand our operations we will need to raise additional capital. During the second quarter of fiscal 2009 we also commenced a capital raising effort to raise funds to purchase drilling and work over rigs and other equipment. The additional equipment could also be used on the Atlas Energy agreement but would be available for proprietary drilling. This private offering, however, is being conducted on a best efforts basis and there are no assurances we will raise any capital thereunder or that any funds we do receive will be sufficient to enable us to purchase the additional equipment. In that event, we would be required to seek alternative sources of financing for the purchase of the additional rigs and equipment and there are no assurances that this capital would be available to us.

In addition, our long-term cash flows are subject to a number of variables including the level of production and prices as well as various economic

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conditions that have historically affected the oil and gas business. A material drop in oil and gas prices has recently reduced our liquidity. As of February 23, 2009 oil was priced at \$38.18 per barrel, down 8.5% from the \$41.73 per barrel on January 31, 2009. At February 23, 2009 natural gas was \$4.09 per Mcf as compared to \$4.42 per Mcf at January 31, 2009. Also, a reduction in production and reserves would reduce our operating results in future periods. We operate in an environment with numerous financial and operating risks, including, but not limited to, the inherent risks of the search for, development and production of oil and gas, the ability to buy properties and sell production at prices which provide an attractive return and the highly competitive nature of the industry.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable to a smaller reporting company.

ITEM 4T. CONTROLS AND PROCEDURES.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934, as amended, as the end of the period covered by this report (the "Evaluation Dates"). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded as of the Evaluation Dates that our disclosure controls and procedures were effective such that the information relating to our company required to be disclosed in our reports filed with the Securities and Exchange Commission (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls is based 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.

There was no change in our internal control over financial reporting identified in connection with the evaluation that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

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ITEM 1A. RISK FACTORS.

Not applicable to a smaller reporting company.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On February 12, 2009, we issued 195,000 shares of our common stock to a warrant holder upon exercise of a common stock purchase warrant to purchase 200,000 shares of our common stock with an exercise price of \$0.01 per share who utilized the cashless exercise option of the warrant in a private transaction exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(2) of that act. The recipient was an accredited or otherwise sophisticated investor who had such knowledge and experience in business matters that it was capable of evaluating the merits and risks of the prospective investment in our securities. The recipient had access to business and financial information concerning our company.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

- 31.1 Rule 13a-14(a)/15d-14(a) certificate of Chief Executive Officer 2002 (Sarbanes-Oxley)
- 31.2 Rule 13a-14(a)/15d-14(a) certificate of Chief Financial Officer
- 32.1 Section 1350 certification of Chief Executive Officer
- 32.2 Section 1350 certification of Chief Financial Officer

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 thereunto duly authorized.

MILLER PETROLEUM, INC.

Date: March 16, 2009

By: /s/ Scott M. Boruff

Scott M. Boruff
Chief Executive Officer,
principal executive officer

Date: March 16, 2009

By: /s/ Paul W. Boyd

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Paul W. Boyd
Chief Financial Officer, principal
financial and accounting officer

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