

MILLER PETROLEUM INC
Form 10QSB
September 19, 2006

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 July 31, 2006

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 Identification. No.)

3651 Baker Highway
Huntsville, Tennessee 37756

(Address of principal executive offices)

(423) 663-9457

Issuer's telephone number

N/A

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

Check whether the issuer: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the issuer was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES x NO

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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
o NO x

As of July 31, 2006, the registrant had a total of 14,366,856 shares of Common Stock, \$0.001 par value, outstanding.

Transitional Small Business Disclosure Format (check one): YES o NO x

Miller Petroleum, Inc.
Form 10-QSB
For the Quarter Ended July 31, 2006

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MILLER PETROLEUM, INC.
Condensed Consolidated Balance Sheets

	July 31 2006 Unaudited	April 30 2006
ASSETS		
CURRENT ASSETS		
Cash	\$ 114,201	\$ 0
Accounts receivable	145,964	311,286
Participant receivables	268,029	347,060
Note receivable	7,900	43,000
Inventory	107,144	97,388
Unbilled service and drilling costs	0	76,944
Total Current Assets	643,238	875,678
FIXED ASSETS		
Machinery and equipment	880,904	880,904
Vehicles	374,836	321,895
Buildings	315,835	315,835
Office Equipment	27,705	23,028
	1,599,280	1,541,662
Less: accumulated depreciation	(805,161)	(782,971)
Total Fixed assets	794,119	758,691
OIL AND GAS PROPERTIES (On the basis of successful efforts accounting)	1,559,950	1,576,950
PIPELINE FACILITIES	190,860	193,948
OTHER ASSETS		
Investment in joint venture at cost	801,319	801,319
Land	496,500	496,500
Investments	500	500
Equipment held for sale	429,362	440,712
Cash - restricted	83,000	83,000
Total Other Assets	1,810,681	1,822,031
TOTAL ASSETS	\$ 4,998,848	\$ 5,227,298

See notes to condensed consolidated financial statements.

MILLER PETROLEUM, INC.
Condensed Consolidated Balance Sheets

	July 31 2006 Unaudited	April 30 2006
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Bank overdraft	\$ 0	\$ 27,253
Accounts payable - trade	107,593	305,494
Accrued expenses	55,572	43,189
Current portion of notes payable	16,587	16,636
Total Current Liabilities	179,752	392,572
LONG-TERM LIABILITIES		
Notes payable		
Related parties		
Other	320,524	323,898
Total Long-Term Liabilities	320,524	323,898
Total Liabilities	500,276	716,470
TEMPORARY EQUITY		
Common stock subject to put rights, 2,900,000 shares	4,350,000	4,350,000
PERMANENT STOCKHOLDERS' EQUITY		
Common Stock: 500,000,000 shares authorized at \$0.0001 par value, 11,466,856 shares issued and outstanding	1,146	1,146
Additional paid-in capital	6,648,683	6,624,683
Unearned compensation	(657,049)	(751,990)
Accumulated deficit	(5,844,208)	(5,713,011)
Total Stockholders' Equity	148,572	160,828
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,998,848	\$ 5,227,298

See notes to condensed consolidated financial statements.

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

	For the Three Months Ended July 31 2006	For the Three Months Ended July 31 2005
REVENUES		
Oil and gas revenue	\$ 134,350	\$ 185,821
Service and drilling revenue	397,568	1,298,245
Total Revenue	531,918	1,484,066
COSTS AND EXPENSES		
Cost of oil and gas revenue	14,779	20,440
Cost of service and drilling revenue	354,509	960,118
Selling, general and administrative, net of joint venture reimbursement	223,239	371,469
Administrative salaries and wages, net of reimbursement	0	76,416
Depreciation, depletion and amortization	42,278	74,218
Total Costs and Expense	634,805	1,502,661
INCOME (LOSS) FROM OPERATIONS	(102,887)	(18,595)
OTHER INCOME (EXPENSE)		
Interest Income	52	51
Gain on sale of equipment	0	300
Interest expense	(4,362)	(171,531)
Penalty warrants	(24,000)	0
Total Other Income (Expense)	(28,310)	(171,180)
NET INCOME (LOSS)	\$ (131,197)	\$ (189,775)
Basic and Diluted - Loss per Share		
Basic and Diluted - Loss per Share	\$ (0.01)	\$ (0.02)
Basic and Diluted -Shares Outstanding	14,366,856	9,396,856

See notes to condensed consolidated financial statements.

MILLER PETROLEUM, INC
Condensed Consolidated Statement of Permanent Stockholders' Equity
for the Twelve Months ended April 30, 2006 and the Three Months ended July 31, 2006
(UNAUDITED)

	Common Shares	Shares Amount	Additional Paid-in Capital	Unearned Compensation	Retained Earnings	Total
Balance, April 30, 2005	9,396,856	\$ 939	\$ 4,495,498	\$	\$ (2,123,077)	\$ 2,373,360
Issuance of warrants as prepayment of financing costs			370,392			370,392
Issuance of warrants for financing cost penalty			66,000			66,000
Issuance of shares as payments of services	1,650,000	165	1,682,835	(751,990)		931,010
Issuance of shares for stock sales commission	400,000	40	459,960			460,000
Cost of stock sales			(460,000)			(460,000)
Exercise of warrants	20,000	2	9,998			10,000
Net loss for the year ended April 30, 2006					(3,589,934)	(3,589,934)
Balance, April 30, 2006	11,466,856	1,146	6,624,683	(751,990)	(5,713,011)	160,828
To reflect compensation earned for the three months ended July 31, 2006				94,941		94,941
Issuance of warrants for financing cost penalty			24,000			24,000
Net loss for the three months ended July 31, 2006					(131,197)	(131,197)
Balance July 31, 2006	11,466,856	\$ 1,146	\$ 6,648,683	\$ (657,049)	\$ (5,844,208)	\$ 148,572

See notes to condensed consolidated financial statements.

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

	For the Three Months Ended July 31, 2006	For the Three Months Ended July 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	\$ (131,197)	\$ (189,775)
Depreciation, depletion and amortization	42,278	74,218
Adjustments to Reconcile Net Loss to		
Net Cash Provided (Used) by Operating Activities:		
Gain on sale of equipment	0	300
Issuance of stock for services	94,941	0
Warrant costs	24,000	79,370
Changes in Operating Assets and Liabilities:		
Accounts receivable	244,353	(31,136)
Accrued drilling income	0	(126,015)
Participant receivables	0	(231,223)
Inventory	(9,756)	0
Bank overdraft	(27,253)	0
Unbilled service & drilling cost	76,944	0
Accounts payable	(197,901)	(151,310)
Accrued expenses	12,383	138,621
Net Cash Provided (Used) by Operating Activities	128,792	(436,950)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Equipment	(57,618)	(27,480)
Sale of equipment	11,350	0
Net additions to oil and gas properties	0	(230,681)
Net Cash Used by Investing Activities	(46,268)	(258,161)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(3,423)	(1,978,737)
Proceeds from borrowing	0	4,150,000
Loan fees	0	(402,710)
Increase in restricted cash	0	(91,358)
Change in note receivable	35,100	5,000
Net Cash Provided by Financing Activities	31,677	1,682,195
NET INCREASE IN CASH	114,201	987,084
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	0	2,362

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CASH AND CASH EQUIVALENTS, END OF PERIOD	\$	114,201	\$	989,446
CASH PAID FOR				
INTEREST	\$	4,362	\$	92,161
INCOME TAXES	\$	0	\$	0

See notes to condensed consolidated financial statements.

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MILLER PETROLEUM, INC.
Notes to the Condensed Consolidated Financial Statements

(1) Interim Reports / Going Concern

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. However, in addition to successive losses for three years, declining revenues, a net loss of \$131,197 for the quarter ended July 31, 2006, and net equity of \$148,572 as of July 31, 2006, the Company was informed on August 30, 2006 by Wind City Oil & Gas, LLC that it would exercise its put to return the stock as of September 30, 2006. Management believes that the Company will therefore need total additional financing of approximately \$5,000,000 to effect the repurchase and continue to operate as planned during the twelve month period subsequent to July 31, 2006. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

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, 2006 Annual Report on Form 10-KSB. The results of operations for the period ended July 31, 2006 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) Participant Receivables and Related Party Receivables

Participant receivable 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. Approximately \$267,000 included in the balance sheet among Participant Receivables is due from Wind Mill Oil & Gas, LLC, a related party.

(3) Long-Term Debt, Warrants, Loan Fees And Restricted Cash

Long-term debt consisted of a mortgage loan on our land and building. Interest in the amount of \$4,077 was paid on this note for the quarter ended July 31, 2006.

(4) Stockholders' Equity

On December 23, 2005 we entered into a joint venture agreement (JV) with Wind City Oil & Gas, LLC to form Wind Mill Oil & Gas, LLC to explore, drill and develop certain oil and gas properties. The JV provides for Wind Mill Oil & Gas, LLC to repay us for our efforts involved in these activities and for our retention of a 49% interest in any resulting production.

As part of the agreement, Wind City Oil & Gas, LLC purchased 2,900,000 common shares for \$4,350,000 on December 23, 2005. The stock purchase agreement contains a put whereby Wind City Oil & Gas, LLC can put the stock back to us until September 30, 2006. Because of this provision the Company has classified the stock as temporary equity, in accordance with Accounting Series Release ("ASR") No. 268 and Emerging Issues Task Force ("EITF") Topic D-98, which require that stock subject to rescission or redemption requirements outside the control of the Company to be classified outside of permanent equity.

MILLER PETROLEUM, INC.
Notes to the Consolidated Financial Statements

(4) Stockholders' Equity (continued)

Penalty warrants for 120,000 common shares at a price of \$1.15 per share, and a five-year term were issued during the three months ended July 31, 2006. The warrants were valued at \$24,000.

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 three months ended July 31, 2006 and for the year ended April 30, 2006, 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.

(5) Recent Accounting Pronouncements

In February 2006 the FASB issued SFAS No 155 "Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No 133 and 140". This Statement amends FASB Statements No 133, "Accounting for Derivative Instruments and Hedging Activities" and No 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". This Statement revolves around issues addressed in Statement No 133 Implementation Issue No D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets". This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Adoption of SFAS No 155 is not expected to have a material effect on the Company's results of operations, financial condition or cash flows.

In March 2006 the Financial Accounting Standards Board ("FASB") issued SFAS No 156 "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No 140. SFAS No 156 amends SFAS No 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", with respect to accounting for separately recognized servicing assets and servicing liabilities. SFAS No 156 is effective for fiscal years that begin after September 15, 2006, with early adoption permitted as of the beginning of an entity's fiscal year. The Company does not have any servicing assets or servicing liabilities and, accordingly, the adoption of SFAS No 156 will not have any effect on the results of operations, financial condition or cash flows.

Financial Accounting Standards Board Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*, was issued in July 2006 and will be effective for the Company on January 1, 2007. FIN 48 defines the threshold for recognizing the benefits of uncertain tax return positions in the financial statements. The Company has not yet determined the impact this Interpretation will have on its financial position, results of operations or cash flows.

(6) Subsequent Event

On August 30, 2006, Wind City notified us of its intent to unwind and exercise the put provision of the stock purchase agreement, which could require us to repurchase the 2,900,000 shares of common stock originally issued to Wind City for an aggregate consideration of \$4,350,000. In connection therewith, the parties are negotiating to continue the Wind Mill Joint Venture under modified mutually acceptable terms.

MILLER PETROLEUM, INC.
Notes to the Consolidated Financial Statements

(6) Subsequent Event (continued)

Presented below is a condensed, pro-forma balance sheet showing the impact of the put, had it been exercised by July 31, 2006.

Assets	
Cash	\$ 114,201
Accounts and notes receivable	421,893
Inventory	107,144
Total Current Assets	643,238
Net Fixed Assets	794,119
Net Oil & Gas Properties	2,361,269
Other Assets	1,200,222
Total Assets	\$ 4,998,848
Liabilities and Stockholders' Equity	
Accounts and expenses payable	\$ 179,752
Payable to Wind City Oil & Gas, LLC	4,350,000
Total Current Liabilities	4,529,752
Long-term Liabilities	320,524
Total Liabilities	4,850,276
Stockholders' Equity	148,572
Total Liabilities and Stockholders' Equity	\$ 4,998,848

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The following discussion is intended to facilitate an understanding of our business and results of operations and includes forward-looking statements that reflect our plans, estimates and beliefs. It should be read in conjunction with our audited consolidated financial statements and the accompanying notes to the consolidated financial statements included herein. Our actual results could differ materially from those discussed in these forward-looking statements.

Overview

We are actively engaged in the exploration, development, production and acquisition of crude oil and natural gas primarily in eastern Tennessee. In December 2005, we entered into a joint venture agreement with Wind City Oil & Gas, LLC ("Wind City") to form Wind Mill Oil & Gas, LLC (the "Wind Mill Joint Venture"). We own 49.9% of the Wind Mill Joint Venture and Wind City owns 50.1%. We contributed approximately 43,000 acres, which we held under lease in Tennessee, to the Wind Mill Joint Venture for oil and gas exploration, development and exploitation of undeveloped wells. Wind City contributed \$10,000,000. The joint venture will only encompass new drilling projects. We retained our working interest in the developed and producing wells located on such leases. In connection with the development of wells by the Wind Mill Joint Venture, we will also receive reimbursement for certain salaried employees and revenue for providing labor and equipment. Including the leases that were contributed to the Wind Mill Joint Venture, we have approximately 50,000 acres under lease. About 90% of such leases are held by production.

On August 30, 2006 Wind City notified us of its intent to unwind and exercise the put provision of the stock purchase agreement, which could require us to repurchase the 2,900,000 shares of common stock originally issued to Wind City for an aggregate consideration of \$4,350,000. In connection therewith, the parties are negotiating to continue the Wind Mill Joint Venture under modified mutually acceptable terms.

Our present financial condition precludes us from being able to repurchase the shares under the put. We are exploring various financing opportunities in this regard; however, there can be no assurance that we will be able to obtain financing sufficient to repurchase such shares. In the event that we are unable to obtain financing on acceptable terms sufficient to consummate the repurchase, we may be in breach of contract, and our business and financial condition could be materially adversely affected.

Liquidity and Capital Resources

Cash provided by operating activities was \$128,792 for the three months ended July 31, 2006, an increase of \$565,742 from cash used by operating activities for the three months ended July 31, 2005 of \$436,950. Our principal source of liquidity has been oil and gas revenues, loans from related parties and directors, private placement transactions of our common stock, and participation with investors in various oil and gas wells. The increase in oil and gas prices and the fact that we have approximately 50,000 acres under lease in Tennessee enhances our ability to attract investors and to pursue joint ventures in oil and gas.

On December 23, 2005 we entered into the Wind Mill Oil & Gas LLC Agreement ("Wind Mill") and also sold 2,900,000 shares of common stock to Wind City Oil & Gas, LLC ("Wind City") for \$4,350,000. These funds were used to pay off the \$4,150,000 of loans and to provide some working capital. Wind City also contributed \$10,000,000 to Wind Mill and we contributed oil and gas leases as part of the Wind Mill agreement. For the three months ended July 31, 2006 we received \$217,364 of administrative salary reimbursements and revenue of \$314,527 for various labor, parts and use of equipment. The continued receipt of salary reimbursements and revenue from Wind Mill is a significant factor in our cash flow as we are completing wells to obtain revenue.

Our long-term cash flows are subject to a number of variables including the level of production and prices as well as various economic conditions that have historically affected the oil and gas business. A material drop in oil and gas prices or a reduction in production and reserves would reduce our ability to fund capital expenditures, service new debt, meet financial obligations and remain profitable. 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. Our ability to expand our reserve base is, in part, dependent on obtaining sufficient capital through internal cash flow or the issuance of debt or equity securities. There can be no assurance that internal cash flow and other capital sources will provide sufficient funds to maintain capital expenditures that we believe are necessary to offset future declines in production and proved reserves.

Results of Operations

Three Months Ended July 31, 2006 compared to Three Months Ended July 31, 2005

	For the Three Months Ended July 31		Increase / (Decrease) 2005 to 2006
	2006	2005	
REVENUES			
Oil and gas revenue	\$ 134,350	\$ 185,821	\$ (51,471)
Service and drilling revenue	397,568	1,298,245	(900,677)
Total Revenue	531,918	1,484,066	(952,148)
COSTS AND EXPENSES			
Cost of oil and gas revenue	14,779	20,440	(5,661)
Cost of service and drilling revenue	354,509	960,118	(605,609)
Selling, general and administrative	223,239	371,469	(148,230)
Administrative salaries and wages		76,416	(76,416)
Depreciation, Depletion and amortization	42,278	74,218	(31,940)
Total Costs and Expenses	634,805	1,502,661	(867,856)
INCOME (LOSS) FROM OPERATIONS	(102,887)	(18,595)	(84,292)
OTHER INCOME (EXPENSE)			
Interest income	52	51	(1)
Gain on sale of equipment		300	300
Interest expense	(4,362)	(171,531)	(167,169)
Penalty warrants	(24,000)		24,000
Total Other Income (Expense)	(28,310)	(171,180)	(142,870)
NET INCOME (LOSS)	\$ (131,197)	\$ (189,775)	\$ (58,578)

Revenue

Oil and gas revenue was \$134,350 for the three months ended July 31, 2006 as compared to \$185,821 for the three months ended July 31, 2005, a decrease of \$51,471. This resulted from changing oil vendors such that oil was not collected for approximately one month, requiring a cessation of production.

Service and drilling revenue was \$397,568 for the three months ended July 31, 2006 as compared to \$1,298,245 for the three months ended July 31, 2005, a decrease of \$900,677. This resulted from a decrease in drilling activity, however, through the Wind Mill Joint Venture nine wells were drilled during the quarter ended July 31, 2006.

Cost and Expense

The cost of oil and gas revenue was \$14,779 for the three months ended July 31, 2006 as compared to \$20,440 for the three months ended July 31, 2005, a decrease of \$5,661. This decrease resulted from the cost associated with decreased production due to changing oil vendors and no collection of oil for approximately one month.

The cost of service and drilling revenue was \$354,509 for the three months ended July 31, 2006 as compared to \$960,118 for the three months ended July 31, 2005, a decrease of \$605,609. This decrease is due to the decrease in drilling activities.

Selling, general and administrative expense was \$223,239 for the three months ended July 31, 2006 as compared to \$371,469 for the three months ended January 31, 2005, a decrease of \$148,230. This decrease resulted from a decrease in consulting, legal and professional fees and payments of \$64,513 from Wind Mill Oil & Gas, LLC.

Administrative salaries and wages expense was \$0 for the three months ended July 31, 2006 as compared to \$76,416 for the three months ended July 31, 2005, a decrease of \$76,416. This decrease resulted from salary reimbursements from Wind Mill Oil & Gas, LLC.

Depreciation, depletion and amortization was \$42,278 for the three months ended July 31, 2006 as compared to \$74,218 for the three months ended July 31, 2005, a decrease of \$31,940. This resulted from management's decision to write off \$624,255 of well cost at April 30, 2006 with a corresponding decrease in depletion expense.

Interest expense was \$4,362 for the three months ended July 31, 2006 as compared to \$171,531 for the three months ended July 31, 2005, a decrease of \$167,169. This resulted from the Wind City Oil & Gas, LLC stock purchase and the payoff of most notes.

Item 3 Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of a date as of the end of the period covered by the report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in gathering, analyzing and disclosing information needed to satisfy our disclosure obligations under the Securities Exchange Act of 1934.

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 6

Exhibits

ExhibitSection 302 Certification of Chief Executive Officer
31.1

ExhibitSection 302 Certification of Chief Financial Officer
31.2

ExhibitSection 906 Certification of Chief Executive Officer
32.1

ExhibitSection 906 Certification of Chief Financial Officer
32.2

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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.

MILLER PETROLEUM, INC.

Date: September 19, 2006

By: /s/ Deloy Miller
Deloy Miller
Chief Executive Officer, principal executive officer

Date: September 19, 2006

By: /s/ Lyle H. Cooper
Lyle H. Cooper
Chief Financial Officer, principal financial and
accounting officer