UNITED ENERGY CORP /NV/
Form 10-Q
February 17, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q
(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2003

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

FOR THE TRANSITION PERIOD FROM ________ TO __________

COMMISSION FILE NO. 000-30841

UNITED ENERGY CORP.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| NEVADA<br>(State or other jurisdiction of incorporation or organization) | 22-3342379<br>(I.R.S. Employer Identification No.) |
| 600 MEADOWLANDS PARKWAY #20, SECAUCUS, N.J.<br>(Address of principal executive offices) | 07094<br>(Zip Code) |

(800) 327-3456
(Registrant's telephone number, including area code)

Indicate by check mark whether the Issuer (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 Issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [ ] No

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

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

| Class | Outstanding as of December 31, 2003 |
|---|---|
| Common Stock, $.01 par value | 22,180,270 shares |

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PART I. FINANCIAL INFORMATION

UNITED ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2003
AND MARCH 31, 2003

| | DECEMBER 31, 2003 | MARCH 2003 |
|---|---|---|
| | (UNAUDITED) | |
| ASSETS | | |

| | | |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 277,607 | $ 2,12 |
| Accounts receivable, net of allowance for doubtful accounts of $66,488 and $48,113, respectively | 420,943 | 49 |
| Inventory, net of allowance of $16,290 and $16,290, respectively | 222,252 | 21 |
| Note receivable, net of reserve of $40,857 and $30,000, respectively | 64,808 | 14 |
| Prepaid expenses and other current assets | 67,115 | 10 |
| Total current assets | 1,052,725 | 3,08 |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization of $191,744 and $93,032, respectively | 377,729 | 26 |
| OTHER ASSETS: | | |
| Goodwill, net of accumulated amortization of $17,704 and $17,704, respectively | 68,819 | 6 |
| Patents, net of accumulated amortization of $59,944 and $44,253, respectively | 310,877 | 22 |
| Loans receivable, net of reserve of $107,705 and $107,705, respectively | 3,238 | |
| Deposits | 76,385 | 3 |
| Total assets | $ 1,889,773 | $ 3,6 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 320,621 | $ 15 |
| Accrued expenses | 184,978 | 33 |
| Due to related party | 244,141 | 24 |
| Total current liabilities | 749,740 | 73 |
| Asset retirement obligation | 30,000 | |
| Total liabilities | 779,740 | 73 |
| STOCKHOLDERS' EQUITY: | | |
| Common stock; 100,000,000 shares authorized of $0.01 par value, 22,180,270 shares issued and outstanding as of December 31, 2003 and March 31, 2003 | 221,802 | 22 |
| Additional paid-in capital | 10,708,453 | 10,69 |
| Accumulated deficit | (9,820,222) | (7,97 |
| Total stockholders' equity | 1,110,033 | 2,94 |
| Total liabilities and stockholders' equity | $ 1,889,773 | $ 3,68 |

The accompanying notes are an integral part of these consolidated balance sheets



UNITED ENERGY CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED
DECEMBER 31, 2003 AND 2002

| | FOR THE THREE MONTHS ENDED ENDED DECEMBER 31, 2003 | 2002 |
|---|---|---|
| | (UNAUDITED) | |
| REVENUES, net | $ 91,120 | $ 792,092 |
| COST OF GOODS SOLD | 38,054 | 431,383 |
| Gross profit | 53,066 | 360,709 |
| OPERATING EXPENSES: | | |
| General and administrative | 558,453 | 901,681 |
| Oil well operating and maintenance cost-net | 11,795 | - |
| Depreciation, amortization and depletion | 39,447 | 24,780 |
| Total operating expenses | 609,695 | 926,461 |
| Loss from operations | (556,629) | (565,752) |
| OTHER INCOME (EXPENSE), net: | | |
| Interest income | 1,254 | 15,250 |
| Interest expense | (588) | (144) |
| Total other income (expense), net | 666 | 15,106 |
| Net loss | $ (555,963) | $ (550,646) |
| BASIC AND DILUTED LOSS PER SHARE | $ (0.03) | $ (0.02) |
| WEIGHTED AVERAGE NUMBER OF SHARES, basic and diluted | 22,180,270 | 22,180,270 |

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

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UNITED ENERGY CORP. AND SUBSIDIARIE
CONSOLIDATED STATEMENT OF STOCKHOLDERS'
FOR THE NINE MONTHS ENDED DECEMBER 31, 2003 (

| | Common Stock | | Additional Paid-In |
| --- | --- | --- | --- |
| | Shares | Amount | Capital |
| BALANCE, March 31, 2003 | 22,180,270 | $ 221,802 | $ 10,698,753 |
| Options granted in consideration for services | -- | -- | 9,700 |
| Net loss | -- | -- | -- |
| BALANCE, December 31, 2003 | 22,180,270 | $ 221,802 | $ 10,708,453 |

The accompanying notes are an integral part of this consolidated statement.



UNITED ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED
DECEMBER 31, 2003 AND 2002

| | 2003 |
| --- | --- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Net loss | $ (1, |
| Adjustments to reconcile net loss to net cash used in operating activities | |
| Depreciation and amortization | |
| Options granted in consideration for services | |
| Changes in operating assets and liabilities | |
| Decrease (increase) in accounts receivable, net | |
| (Increase) decrease in inventory, net | |
| Decrease in note receivable, net | |
| Decrease in prepaid expenses | |
| Increase in deposits | |
| Increase in related party payable | |
| Increase (decrease) in accounts payable and accrued expenses | |
| Net cash used in operating activities | (1, |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Payments on loans receivable | |
| Payments for patents | |
| Payments for acquisition of property and equipment | ( |

| | |
|---|---|
| Net cash used in investing activities | ( |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Payments of line of credit | |
| Payments of private placement costs | |
| Proceeds from issuance of common stock | |
| Net cash provided by financing activities | |
| Net (decrease) increase in cash and cash equivalents | (1, |
| CASH AND CASH EQUIVALENTS, beginning of period | 2, |
| CASH AND CASH EQUIVALENTS, end of period | $ |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | |
| Cash paid during the period | |
| Interest | $ |
| Income taxes | $ |

The accompanying notes are an integral part of these consolidat



UNITED ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003 (UNAUDITED)

1. BASIS OF PRESENTATION AND GOING CONCERN

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments necessary for a fair presentation of the Company's financial position at December 31, 2003 (unaudited) and the results of its operations for the three months and nine months ended December 31, 2003 and 2002 (unaudited) and cash flows for the nine months ended December 31, 2003 and 2002(unaudited). All such adjustments are of a normal and recurring nature. Interim financial statements are prepared on a basis consistent with the Company's annual financial statements. Results of operations for the three months and nine months ended December 31, 2003 are not necessarily indicative of the operating results that may be expected for the year ending March 31, 2004.

The consolidated balance sheet as of March 31, 2003 has been derived from the audited financial statements at that date but does not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements.

For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K, as amended.

Going Concern - During the past two fiscal years ended March 31, 2003 and 2002, the Company has recorded aggregate losses from operations of $4,193,576 and has incurred total negative cash flow from operations of $3,033,650 for the same two-year period. During the nine months ended December 31, 2003 the Company experienced a net loss from operations of $1,846,228 and negative cash flow from operating activities of $1,567,270. These matters raise substantial doubt about the Company's ability to continue as a going concern. The Company's consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Liquidity - The Company's continued existence is dependent upon several factors, including increased sales volume, collection of existing receivables and the ability to achieve profitability from the sale of the Company's product lines. The Company is seeking additional sources of equity or debt financing and expects to complete and fund a transaction in the next month. In order to increase its cash flow, the Company is continuing its efforts to stimulate sales and cut back expenses not directly supporting its sales and marketing efforts.

2. SEGMENT INFORMATION

Under the provision of SFAS No. 131, the Company's activities fall within two operating segments: Graphic Arts and Specialty Chemicals. The following tables set forth the Company's industry segment information for the three months and nine months ended December 31, 2003 and 2002.



UNITED ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

The Company's total revenues and net loss by segment for the three month period ended December 31, 2003 and identifiable assets as of December 31, 2003 are as follows:

| | Graphic Arts | Specialty Chemicals |
|---|---|---|
| Revenues | $ 310 | $ 90,810 |
| Gross profit | $ 133 | $ 52,933 |
| General and administrative | 42,963 | 208,459 |
| Oil well operating and maintenance cost-net | -- | 11,795 |
| Depreciation, amortization and depletion | -- | 35,058 |
| Interest income | -- | -- |

| | | |
|---|---|---|
| Interest expense | -- | 36 |
| Net loss | $ (42,830) | $ (202,415) |
| Cash and cash equivalents | $ -- | $ -- |
| Accounts receivable, net | 363,020 | 57,923 |
| Inventory, net | 26,162 | 196,090 |
| Note receivable, net | 64,808 | -- |
| Prepaid expenses | -- | -- |
| Property and equipment, net | -- | 341,520 |
| Goodwill, net | -- | 68,819 |
| Patents, net | -- | 310,877 |
| Loans receivable, net | -- | -- |
| Deposits | -- | -- |
| Total assets | $ 453,990 | $ 975,229 |

The Company's total revenues and net income (loss) by segment for the nine month per
are as follows:

| | Graphic Arts | Specialty Chemicals |
|---|---|---|
| Revenues | $ 485,667 | $ 300,595 |
| Gross profit | $ 244,363 | $ 145,519 |
| General and administrative | 153,038 | 848,825 |
| Oil well operating and maintenance cost-net | | 102,662 |
| Depreciation, amortization and depletion | -- | 101,239 |
| Interest income | -- | -- |
| Interest expense | -- | 149 |
| Net income (loss) | $ 91,325 | $ (907,356) |



UNITED ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

The Company's total revenues and net income (loss) by segment for the three month peri
identifiable assets as of December 31, 2002, are as follows:

| | Graphic Arts | Specialty Chemicals |
|---|---|---|
| Revenues | $ 709,237 | $ 82,855 |
| Gross profit | $ 316,048 | $ 44,661 |
| General and administrative | 42,196 | 430,973 |
| Depreciation and amortization | -- | 21,385 |
| Interest income | | -- |
| Interest expense | 144 | -- |

| | | |
|---|---|---|
| Net income (loss) | $ 273,708 | $ (407,697) |
| Cash and cash equivalents | $ -- | $ -- |
| Accounts receivable, net | 833,113 | 66,538 |
| Inventory, net | 41,333 | 155,509 |
| Loans receivable, net | -- | 108,447 |
| Prepaid expenses | -- | 80,884 |
| Property and equipment, net | -- | 236,223 |
| Goodwill, net | -- | 68,819 |
| Patents, net | -- | 203,796 |
| Other assets | -- | -- |
| Total assets | $ 874,446 | $ 920,216 |

The Company's total revenues and net income (loss) by segment for the nine month perio follows:

| | Graphic Arts | Specialty Chemicals |
|---|---|---|
| Revenues | $ 1,699,159 | $ 457,542 |
| Gross profit | $ 647,469 | $ 224,729 |
| General and administrative | 138,279 | 1,238,563 |
| Depreciation and amortization | -- | 49,619 |
| Interest income | -- | -- |
| Interest expense | 1,312 | -- |
| Net income (loss) | $ 507,878 | $(1,063,453) |

3. ACQUISITION OF OIL WELL LEASES

On April 4, 2003, the Company purchased oil leases for six oil wells in Laramie County, Wyoming (the "Wyoming Wells") for an aggregate purchase price of $97,616. In addition to operating the wells, the Company used the wells to test its products. During the nine months ended December 31, 2003, the Wyoming Wells produced oil which generated $34,636 in revenues and incurred operating costs and start-up maintenance and repair costs of $137,298, much of which is expected to be non-recurring. The Company has capitalized $17,419 for the oil leases and $71,429 for equipment, net of depreciation, amortization and depletion at December 31, 2003. The Company recorded an asset retirement obligation of $30,000 to cover the cost of capping the wells in accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations." The Company maintains a refundable, interest-bearing deposit of $75,000 with the State of Wyoming to cover the costs of eventual capping the wells in the event they are no longer operated or abandoned.

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UNITED ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

4. NEW ACCOUNTING PRONOUNCEMENTS

In June 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Exit or Disposal Activities." SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be recognized at their fair values when the liabilities are incurred. Under previous guidance, liabilities for certain exit costs were recognized at the date that management committed to an exit plan, which is generally before the actual liabilities are incurred. SFAS No. 146 is effective prospectively for exit or disposal activities initiated after December 31, 2002. This statement had no effect on the Company's consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." This statement amends the disclosure and certain transition provisions of Statement 123, "Accounting for Stock-Based Compensation." Its disclosure provisions, which apply to all entities with employee stock-based compensation, are effective for fiscal years ending after December 15, 2002. SFAS 148:

- requires all entities with stock-based employee compensation arrangements to provide additional disclosures in their summary of significant accounting policies note for entities that use the intrinsic value method of APB No. 25, "Accounting for Stock Issued to Employees", to account for employee stock compensation for any period presented, their accounting policies note should include a tabular presentation of pro forma net income and earnings per share using the fair value method.

- permits entities changing to the fair value method of accounting for employee stock compensation to choose from one of three transition methods - the prospective method, the modified prospective method, or the retroactive restatement method. The prospective transition method, however, will not be available for entities that initially apply the fair value method in fiscal years beginning after December 15, 2003.

- requires interim-period pro forma disclosures if stock-based compensation is accounted for under the intrinsic value method in any period presented. The Company does not currently expect the adoption of this statement to have a material impact on its financial statements.

In November 2002, the FASB issued Interpretation No. 45, "Guarantors' Accounting and Disclosure Requirements for Guarantees, Including Indirect Guaranties of Indebtedness of Others." The Interpretation elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This Interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. The disclosure provisions of this Interpretation were effective for the Company's March 31, 2003 consolidated financial statements. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after March 31, 2003. This Interpretation had no effect on the Company's consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities." This Interpretation clarifies the application of existing accounting pronouncements to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The provisions of the Interpretation are immediately effective for all variable interests in variable interest entities created after January 31, 2003, and the Company will need to apply its provisions to any existing variable interests in variable interest entities no later than July 1, 2003. This Interpretation had no effect on the Company's consolidated financial statements.

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UNITED ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

5. RELATED-PARTY TRANSACTIONS

Martin Rappaport, a significant shareholder and director of the Company, owns the property from which the Company leases the 9,600 square foot facility it occupies in Secaucus, New Jersey. The Company pays approximately $100,000 per year under the lease, excluding real estate taxes. We believe that the lease is at fair market value with comparable leases for similar facilities.

6. STOCK-BASED COMPENSATION

At December 31, 2003, the Company has stock-based compensation plan. As permitted by SFAS No.123, "Accounting for Stock Based Compensation", the Company accounts for stock-based compensation arrangements with employees in accordance with provisions of Account Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." Compensation expense for stock options issued to employees is based on the difference on the date of grant, between the fair value of the Company's stock and the exercise price of the option. There was no stock-based employee compensation charged to expense for the nine months ended December 31, 2003 and 2002. The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS No.123 and Emerging Issues Task Force (EITF) Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction With Selling, Goods or Services." All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. Stock-based compensation for non-employees was $9,700 and $0 for the nine months ended December 31, 2003 and 2002, respectively.

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UNITED ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

The following table illustrated the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to all stock-based compensation:

| | For the Three Months | For the Nin |
|---|---|---|
| | Ended December 31, | Ended Decem |

| | 2003 | 2002 | 2003 |
|---|---|---|---|
| Net Loss as reported | $ (555,963) | $(550,646) | $(1,846,228) |
| Deduct:<br>Total stock based employee compensation<br>Expense determined under fair value based<br>method for all awards | (144,823) | (23,892) | (1,312,836) |
| Proforma loss | $ (700,786) | $(574,538) | $(3,159,064) |
| Basic and diluted loss per common share | | | |
| As reported | $ (0.03) | $(0.02) | $(0.08) |
| Pro forma | $ (0.03) | $(0.03) | $(0.14) |

7. COMMITMENTS AND CONTINGENCIES

The Company and its subsidiaries, in the normal course of their respective businesses, are parties to certain litigation. In the opinion of the Company's management, settlements of litigation will not have a material adverse effect on the Company's results of operations, financial position or cash flows.

Texas Oil Field Accident

On October 29, 2002, an accident occurred at an oil well site near Odessa, Texas, where the Company's equipment and products were being used in the treatment of an oil well. Three lawsuits were commenced against the Company in Texas state court in Crane County, arising from this incident and one additional claim, though not formally commenced, was asserted. The insurance companies involved have settled all of the claims and the Company has paid only $15,000 in legal out of pocket fees relating to these claims.

In addition to the above-described litigation, OSHA commenced an investigation into the accident. On April 8, 2003, OSHA issued its Citation and Notification of Penalty which found that the Company had committed violations of certain applicable rules, including having failed to provide at or in proximity to the site a person or persons adequately trained to render first aid with adequate first aid supplies available and having failed to develop, implement or maintain at the site a written hazard communication program describing how safety criteria will be met. OSHA proposed a fine of $3,000 for these violations, which the Company has paid.

Litigation Concerning A Former Employee

On or about May 16, 2003, the Company commenced an action against Jon Hebert, a former employee of the Company in the United States District Court for the District of New Jersey (the "Herbert Action"), seeking preliminary and permanent

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

injunctive and other relief for violations by Mr. Hebert of employment and non-disclosure agreements between him and the Company, resulting in alleged disclosures by Hebert of the Company's confidential and proprietary information and wrongful solicitation of the Company's customers. The Company alleges that sales of products manufactured or distributed by Hebert's new employer may, in addition, infringe the Company's patents. After a hearing on the Company's motion for a preliminary injunction, the Court denied the motion, but ordered expedited proceedings in the matter.

On or about May 27, 2003, Mr. Hebert's current employer, Fluid Sciences, L.L.C., commenced two actions against the Company and one of its wholly-owned subsidiaries, Nor Industries, Inc. One of the actions was commenced in the 15th Judicial District Court, Lafayette Parish, Louisiana ("Fluid Sciences Action #1). This action seeks a declaratory judgment that the agreements between the Company and Mr. Hebert are not enforceable against Fluid Sciences, L.L.C as a matter of Louisiana's public policy and laws. In addition the action seeks judgment that the Company's efforts to enforce its agreements with Mr. Hebert are in restraint of trade and constitute unfair competition entitling Fluid Sciences, L.L.C. to injunctive relief and damages. In June, 2003, the Company removed this action to the United States District Court for the Western District of Louisiana. In October 2003, the action was administratively stayed pending the outcome of the action described in the preceding paragraph which was brought in the United States District Court for the District of New Jersey by the Company against Mr. Hebert.

On or about May 27, 2003, a second action was commenced in the United States District Court for the Western District of Louisiana, entitled Fluid Sciences, L.L.C. v. United Energy Corp. and Nor Industries, Inc (Fluid Sciences Action #2). The complaint in this action alleges that Fluid Sciences is entitled to a declaratory judgment that its products do not infringe on the patents of the Company. The Company and its subsidiary intend vigorously to defend the litigation brought by Fluid Sciences, L.L.C.

The parties to the Herbert Action and to Fluid Sciences Actions #1 and 2 have orally agreed, in principle, to settle and discontinue all of the actions without any further cost to any of the parties. While the specific terms of the settlements have not yet been finally established, the Company does not anticipate that any such litigation will have an adverse affect upon the Company. Included in these settlement negotiations are clear promises from Fluid Sciences, L.L.C. and Jon Herbert that there will be no further violations of any company patents.

Sales Commission Claim

On or about July 26, 2002, an action was commenced against the Company in the Court of Common Pleas of South Carolina, Pickens County, brought by Quantum International Technology, LLC and Richard J. Barrett. Plaintiffs allege that they were retained as the sales representative to the Company and in that capacity made sales of the Company's products to the United States government and to commercial entities. Plaintiffs further allege that the Company failed to pay to plaintiffs agreed commissions at the rate of 20% of gross sales of the Company's products made by plaintiffs. The complaint seeks an accounting, compensatory damages in the amount of all unpaid commissions plus interest thereon, punitive damages in an amount treble the compensatory damages, plus legal fees and costs. Plaintiffs maintain that they are entitled to receive an aggregate of approximately $350,000 in compensatory and punitive damages, interest and costs. In June 2003, the action was transferred from the court in Pickens County to a Master in Equity sitting in Greenville, South Carolina and was removed from the trial docket. The action, if tried, will be tried without a jury. No trial date has been scheduled. The Company believes it has meritorious defenses to the claims asserted in the action and intends vigorously to defend the case. The Company also believes that the actual amount of damages will be under $10,000.



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

CAUTIONARY STATEMENT RELATING TO FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Report on Form 10-Q discuss our plans and strategies for our business or state other forward-looking statements, as this term is defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions; industry capacity; marketing and other industry trends; demographic changes; competition; the loss of any significant customers; availability of working capital, inability to raise additional capital, failure to achieve sales objectives, ability to control expenses, inability to manufacture products, reliance on third parties for raw materials, risks related to compliance to environmental laws, changes in business strategy or development plans; retention of clients not under long-term contract; quality and retention of management; business abilities and judgment of personnel; availability of qualified personnel; protection of proprietary rights, patents and trade secrets and changes in, or the failure to comply with, government regulations.

OVERVIEW

The Company considers its primary focus to be the development, manufacture and sale of environmentally friendly specialty chemical products. The Company considers its leading product in terms of future earnings potential to be its KH-30(R) multifunctional dispersant and its family of related products KX-91(R) and KH-30S(R) used as oil and gas well, pipeline and storage tank cleaners.

KH-30(R) is an environmentally friendly, non-petroleum based product that is biodegradable. When applied in accordance with the Company's recommended procedures, KH-30(R) has resulted in substantial production increases of between two and five times in paraffin and asphaltene-affected oil and gas wells. In addition, KH-30(R) has proven effective as a "downstream application" which results in cleaner flow lines and holding tanks. KH-30(R) has also been tested to be refinery compatible in that it contains no materials that are harmful to the refining process. This product has yet to achieve any significant market penetration; however, the Company has recently received a number of requests for promotional samples from prospective customers in several countries throughout the world and many states in the U.S.

On October 9, 2002, the Company announced the filing of a comprehensive patent for its new S2 System. The S2 System employs new technology to maintain the flow of oil and gas throughout all phases of the production, transportation, refinery and storage process in the oil and gas industry. The S2 System is a light-weight, compact, mobile device, which can economically generate high volumes of steam at controllable pressures and temperatures using non-petroleum based fuel. In conjunction with the injection of KH-30(R) and its related family of products, the S2 System will be used to melt paraffin and asphaltene deposits, and to inhibit the formation of new blockages, maintaining peak performance of equipment for an extended time period. The Company also believes that this system has applications in other non-petroleum based uses where large volumes of high temperature steam are required.

One of the Company's graphic arts products is a photo-sensitive coating that is applied to paper to produce what is known in the printing industry as proofing paper or "blue line" paper. The Company developed this formulation over several years of testing. The Company's patent attorneys have informed the Company that the formulation is technically within the public domain as being within the scope of an expired DuPont patent. However, the exact formulation utilized by the Company has not been able to be duplicated by others and is protected by the Company as a trade secret. The product is marketed under the trade name UNIPROOF(R). Most recently UNIPROOF(R) has been made in a thinner configuration so it can now be used by book publishers as well as other printers.

The Company has an arrangement with Alameda Company of Anaheim, California to distribute UNIPROOF(R) proofing paper on a non-exclusive basis. The Company seeks additional distributors to sell the UNIPROOF(R) product.

The Company's chemists have also developed an environmentally friendly fire-retardant agent named FR-15. FR-15 begins as a concentrate which can be mixed with varying amounts of water, depending on the anticipated use. FR-15 mixture also resists re-ignition once a fire has been extinguished. This product can also be used to reduce odors,



such as those from decomposing garbage, and for soil remediation following petroleum-based contamination. The FR-15 has been developed and successfully tested by several municipal fire departments. The Company does not have any current plans to market this product in the United States.

Slick Barrier is an underwater protective coating which prevents the adherence of barnacles to boat hulls. The product is another in the Company's line of environmentally friendly products that are biodegradable, which the Company believes to be particularly appealing in fresh water marine applications. The product is being tested on pleasure boats throughout the United States and Europe. A patent application on this product has been filed.

In November 1998, the Company acquired all of the outstanding shares of Green Globe in exchange for 30,000 shares of the Company's common stock. Green Globe is operated as a separate subsidiary of the Company and sells its products under the trade name Qualchem(TM). The acquisition of Green Globe gives the Company access to the chemistry and product lines of Green Globe, which include environmentally friendly paint strippers and cleaners, many of which have been qualified for use by the U.S. Military. The Green Globe product line includes the development of dual package cleaning and drying "wipes" which produce a clear, non-reflective coating on glasses, computer screens and instrument panels. The wipes were developed for, and have received U.S. Military approval for, the cleaning of the instrument panels of combat aircraft.



RESULTS OF OPERATIONS

THREE MONTHS ENDED DECEMBER 31, 2003 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2002

Revenues. Revenues for the three months ended December 31, 2003 were $91,120, a $700,970, or 88% decrease from revenues of $792,092 in the comparable three months of 2002. The decrease in revenues was primarily a result of no UNIPROOF(R) sales during the quarter. UNIPROOF(R) sales tend to be seasonal with more requests for the product in the first through third quarters of the fiscal year. However, our largest customer did not place any orders for additional UNIPROOF(R) paper in the second or third quarters. Specialty Chemicals, which includes sales of our KH-30(R) products and Green Globe/Qualchem military sales, increased by $7,955 to $90,810, or 10% compared to $82,855 in the comparable three months in the previous year. This increase was due primarily to an increase in Green Globe/Qualchem military sales partially offset by a decrease in sales of our KH-30(R) products.

Cost of Goods Sold. Cost of goods sold decreased $393,329, or 91% to $38,054 or 42% of sales, for the three months ended December 31, 2003 from $431,383, or 54% of sales for the three months ended December 31, 2002. The decrease in cost of goods sold and lower percentage of sales was primarily due to the lower sales levels and margins on UNIPROOF(R) paper sales.

Gross Profit. Gross profit for the three months ended December 31, 2003, decreased by $307,643, or 85% to $53,066 or 58% of sales compared with $360,709 or 46% of sales in the prior year. The decrease in gross profit reflects the lower level of sales of UNIPROOF(R) paper.

OPERATING COSTS AND EXPENSES

General and Administrative Expenses. General and administrative expenses decreased $343,228 to $558,453 or 38% for the three months ended December 31, 2003 compared with $901,681 for the three months ended December 31, 2002. The decrease in general and administrative expenses is primarily related to lower salaries and benefits due to the departure of certain executives, lower legal fees and the reduction in certain marketing expenses that were incurred to develop product branding, logos, brochures and a website in 2002.

Depreciation, Amortization and Depletion. Depreciation, amortization and depletion increased to $39,447 from $24,780 reflecting additions to fixed assets for the manufacture of additional S2 System equipment, capitalized legal costs related to patent filings for our S2 System and KH-30(R) family of products, and acquisition of fixed assets related to the Company's oil wells. Depletion expense was not material.

Oil Well Operating and Maintenance Cost - net. During the three months ended December 31, 2003, the Company's wells produced oil which generated $8,583 in revenues and incurred operating costs and maintenance and repair costs of $20,378.

Interest Income, Net of Interest Expense. The Company had net interest income of $666 for the three months ended December 31, 2003 compared with net interest income of $15,106 in the corresponding period in 2002. The decrease was due primarily to the lower investment earnings on the reduced remaining funds raised from the Company's private placement in May 2002.

Net Loss. The three months ended December 31, 2003 resulted in a net loss of $(555,963) or $(0.03) per share as compared to a net loss of $(550,646) or $(0.02) per share for the three months ended December 31, 2002. The increase in the loss in the quarter ended December 31, 2003 was the result of a lower level of sales as a result of a decreased level of UNIPROOF(R) paper sales, which was partially offset by higher gross profit margins and a lower level of general and administrative expenses. The average number of shares of common stock used in calculating earnings per share remained the same at 22,180,270 shares.



NINE MONTHS ENDED DECEMBER 31, 2003 COMPARED TO THE NINE MONTHS ENDED DECEMBER 31, 2002

Revenues. Revenues for the nine month period ended December 31, 2003 were $786,262, a $1,370,439 or 64% decrease from revenues of $2,156,701 in the comparable nine month period ended December 31, 2002. The decrease in revenues was primarily due to decreased sales of UNIPROOF(R) proofing paper compared with the nine-month period ended December 31, 2002. During 2003, there was a substantial decline in sales of UNIPROOF(R) especially during the second and third fiscal quarters due to a lower level of orders from the Company's primary customer. For the nine month period ended December 31, 2003, Specialty Chemical sales, which includes sales of our KH-30(R) products and Green Globe/Qualchem military sales decreased 34% to $300,595 from $457,542 in the prior nine month period ended December 31, 2002. The decline was primarily related to a 66% decrease in Green Globe/Qualchem military sales. We believe, in 2002, the U.S. Government stocked up on orders and then cut its orders in 2003 due to other military priorities. The decline in Green Globe/Qualchem military sales was partially offset by a 5% increase in sales of our KH-30(R) family of oil field dispersant products reflecting a higher level of orders.

Cost of Goods Sold. Cost of goods sold decreased 69% to $396,380 or 50% of sales, for the nine month period ended December 31, 2003 from $1,284,503 or 60% of sales, for the nine month period ended December 31, 2002. The decrease in cost of goods sold was primarily due to the reduced volume of UNIPROOF(R) proofing paper sales and change in the mix of products sold reflecting margins on UNIPROOF(R) paper sales compared to the prior year and increased costs related to providing samples of KH-30(R) to prospective customers during 2002.

Gross Profit. Gross profit for the nine month period ended December 31, 2003 was 50% or $389,882, a $482,316 or 55% decrease from a 40% gross profit or $872,198 in the corresponding period of fiscal 2002. The decrease in gross profit and the increase in the gross profit percentage reflects the level of UNIPROOF(R) paper sales, the higher volume but average lower gross profit level of Green Globe/Qualchem military and KH-30(R) sales. The gross profit was also adversely affected in 2002 by the cost of providing promotional samples of KH-30(R) to prospective customers.

OPERATING COSTS AND EXPENSES

General and Administrative Expenses. General and administrative expenses decreased $363,575, or 15% to $2,025,278, or 258% of revenues for the nine month period ended December 31, 2003 from $2,388,853, or 111% of revenues for the nine month period ended December 31, 2002. The decrease in general and administrative expenses was primarily related to a reduction in salaries and benefits of the new executive staff added beginning in May 2002 (four individuals left the company from February through December 2003), a reduction in non-recurring marketing expenses incurred in 2002 related to developing promotional brochures, logos and product branding, design and implementation costs of a new Company website, which was partially offset by increases in certain legal services partially related to litigation, insurance expenses, an increased level of travel related to meetings with potential customer, and customer trials on oil wells and storage tanks.

Depreciation, Amortization and Depletion. Depreciation, amortization and depletion increased to $114,403 from $57,817 reflecting additions to fixed assets for additional S2 System equipment and capitalized legal costs related to patent filings for our S2 System and KH-30(R) products.

Oil Well Operating and Maintenance Cost-net. During the nine months ended December 31, 2003, the wells produced oil which generated $34,636 in revenues and incurred operating costs and maintenance and repair costs of $137,298.

Interest Income, Net of Interest Expense. The Company had net interest income of $6,233 for the nine month period ended December 31, 2003 compared with net interest income of $50,062 in the corresponding period in 2002. The decrease was due primarily to the investment earnings on the lower level of remaining funds raised from the Company's private placement in May 2002.

Net Loss. The nine month period ended December 31, 2003 resulted in a net loss of $(1,846,228) or $(0.08) per share compared to a net loss of $(1,524,410) or $(0.07) per share for the comparable period ended December 31, 2002. The increase in the loss in the nine month period ended December 30, 2003 was the result of a decrease in sales slightly offset by a decrease in operating expenses. The average number of shares of common stock used in calculating earnings per share increased by 960,000 to 22,180,270 shares at December 31, 2003 compared with 21,220,270 at December 31, 2002. The increase resulted from 6,000,000 shares issued in the Company's private placement in May 2002.



LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2003, the Company had $277,607 in cash and cash equivalents, as compared to $2,120,942 at March 31, 2003.

The $1,843,335 decrease in cash was due to net cash used in operating activities of $1,567,270 and net cash used in investing activities of $276,065. Cash used in investing activities consisted of $97,060 of legal expenses related to patent applications for KH-30(R) and S2 System products, the purchase of production equipment and oil wells of $177,843 and loans to employees of $1,162.

On April 4, 2003 the Company purchased oil leases for six oil wells in Laramie County, Wyoming for an aggregate purchase price of $97,616. In addition to operating the wells, the Company used the wells to test its products. During the nine months ended December 31, 2003, the Wyoming Wells produced oil and generated $34,636 in revenues and incurred operating costs and start-up maintenance and repair costs of $137,298 much of which is expected to be non-recurring. The Company has capitalized $17,419 for the oil leases and $71,429 for equipment, net of depreciation, amortization and depletion at December 31, 2003. The Company maintains a refundable, interest-bearing deposit of $75,000 with the State of Wyoming to cover the costs of eventually capping the wells in the event they are no longer operated or are abandoned. The Company has no present plans for any other significant capital expenditures.

As of December 31, 2003, the Company had no backlog. Backlog represents products that the Company's customers have committed to purchase. The Company's backlog is subject to fluctuations and is not necessarily indicative of future sales.

During the past two fiscal years ended March 31, 2003 and 2002, the Company has recorded aggregate losses from operations of $4,193,576 and has incurred total negative cash flow from operations of $3,033,650 for the same two-year period. During the nine months ended December 31, 2003, the Company experienced a net loss from operations of $1,892,448 and negative cash flow from operating activities of $1,613,490. These matters raise substantial doubt about the Company's ability to continue as a going concern. The Company's consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company's continued existence is dependent upon several factors, including increased sales volume, collection of existing receivables and the ability to achieve profitability from the sale of the Company's product lines. The Company is seeking additional sources of equity or debt financing and expects to complete and fund a transaction in the next month. In order to increase its cash flow, the Company is continuing its efforts to stimulate sales and cut back expenses not directly supporting its sales and marketing efforts.



CONCENTRATION OF RISK

The Company sells its UNIPROOF(R) proofing paper to three customers. One of these customers constitutes 93% of Graphic Arts sales and 57% of total customer sales for the nine month period ended December 31, 2003. The customer has not placed any orders during the second and third quarters. The loss of this customer would have adverse financial consequences to the Company. We have provided liberal credit terms to this customer and there is a risk that a certain amount of this receivable balance may prove to be uncollectable. The Company believes that this customer will purchase additional product and the Company would use that as leverage to collect any outstanding balances.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not expect its operating results, cash flows, or credit available to be affected to any significant degree by a sudden change in market interest rates. Further, the Company does not engage in any transactions involving financial instruments or in hedging transactions with respect to its operations.

ITEM 4. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Interim Chief Financial Officer evaluated the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934, Rules 13a-14(c) and 15d-14(c)) as of a date (the "Evaluation Date") within 90 days before the filing date of this Report, and have concluded that as of the Evaluation Date, the disclosure controls and procedures were adequate and designed to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them.

There were no significant changes in the Company's internal controls or, to management's knowledge, in other factors that could significantly affect the disclosure controls and procedures subsequent to the Evaluation Date.



PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 7, Commitments and Contingencies to the Consolidated Financial Statements.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

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

Not Applicable

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

31.1 Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C. ss.1350 Sec. 302

31.2 Written Statement of the Interim Chief Financial Officer Pursuant to 18 U.S.C.ss.1350 Sec. 302

32.1 Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C. ss.1350 Sec. 906

32.2 Written Statement of the Interim Chief Financial Officer Pursuant to 18 U.S.C.ss.1350 Sec. 906

(b) Reports on Form 8-K.

None



UNITED ENERGY CORP.
FORM 10-Q
DECEMBER 31, 2003

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: February 17, 2004

UNITED ENERGY CORP.

By: /s/ Ronald Wilen

Ronald Wilen,
Chairman and Chief

Executive Officer