

UNITED ENERGY CORP /NV/
Form 10QSB
February 14, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**Form 10-QSB
(Mark One)**

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

For the quarterly period ended December 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. 000-30841

UNITED ENERGY CORP.

(Exact name of small business issuer as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

22-3342379
(I.R.S. Employer Identification No.)

600 Meadowlands Parkway #20, Secaucus, N.J. 07094

(Address of principal executive offices)

(800) 327-3456

(Issuer's telephone number, including area code)

Check whether the issuer (1) 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 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 shell company (as defined in rule 12b-2 of the Exchange Act). Yes No

As of the close of business on February 14, 2007, 31,030,115 shares of common stock, par value \$.01 per share, were outstanding.

Transitional Small Business Disclosure Format (check one) Yes No

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Item 1. Financial Statements

UNITED ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006 AND MARCH 31, 2006

	December 30, 2006 (Unaudited)	March 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,413,145	\$ 5,194,748
Accounts receivable, net of allowance for doubtful accounts of \$2,509 and \$5,018, respectively	88,061	91,557
Inventory, net of allowance of \$16,290 and \$16,290, respectively	115,023	106,957
Note receivable, net of allowance for doubtful accounts of \$10,525 and \$10,525, respectively	4,476	19,476
Prepaid expenses and other current assets	88,473	84,657
Total current assets	3,709,178	5,497,395
 PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization of \$419,951 and \$373,080 respectively	 103,833	 146,994
 OTHER ASSETS:		
Goodwill, net	15,499	15,499
Patents, net of accumulated amortization of \$142,744 and \$119,794, respectively	344,853	327,572
Loans receivable	2,704	364
Deposits	1,385	1,385
Total assets	\$ 4,177,452	\$ 5,989,209

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

**UNITED ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006 AND MARCH 31, 2006**

	December 30, 2006 (Unaudited)	March 31, 2006
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 235,290	\$ 279,303
Accrued expenses	87,915	134,286
Due to related parties	244,141	444,141
Total current liabilities	567,346	857,730
STOCKHOLDERS' EQUITY:		
Series A Convertible Preferred Stock: \$8,000 stated value, 420 shares authorized; 3 shares issued and outstanding as of December 31 2006 and March 31, 2006	24,000	24,000
Common stock: \$0.01 par value 100,000,000 shares authorized; 31,030,115 and 31,017,615 shares issued and outstanding as of December 31, 2006 and March 31, 2006	310,301	310,176
Additional paid-in capital	28,281,635	28,031,915
Accumulated deficit	(25,005,830)	(23,234,612)
Total stockholders' equity	3,610,106	5,131,479
Total liabilities and stockholders' equity	\$ 4,177,452	\$ 5,989,209

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

UNITED ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUES, net	\$ 113,459	\$ 225,220	\$ 637,811	\$ 390,29
COST OF GOODS SOLD	67,863	113,705	277,120	250,50
Gross profit	45,596	111,515	360,691	139,79
OPERATING EXPENSES:				
Selling, general and administrative	716,979	615,999	2,206,592	2,409,36
Depreciation and amortization	19,473	17,326	56,881	51,98
Total operating expenses	736,452	633,325	2,263,473	2,461,34
Loss from operations	(690,856)	(521,810)	(1,902,782)	(2,321,55
OTHER INCOME (EXPENSE), net:				
Interest income	41,157	9	134,655	3
Interest expense	(696)	(726)	(1,925)	(576,89
Total other income (expense), net	40,461	(717)	132,730	(576,86
Net loss	(650,395)	(522,527)	(1,770,052)	(2,898,41
Preferred dividends	(360)	--	(1,166)	
Net loss applicable to common shareholders	\$ (650,755)	\$ (522,527)	\$ (1,771,218)	\$ (2,898,41
BASIC AND DILUTED LOSS PER SHARE:				
Total basic and diluted loss per share	\$ (0.02)	\$ (0.02)	\$ (0.06)	\$ (0.1
WEIGHTED AVERAGE NUMBER OF SHARES, OUTSTANDING, basic and diluted	31,030,115	25,782,241	31,029,070	24,791,02

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

UNITED ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED DECEMBER 31, 2006 (UNAUDITED)

	<u>Common Stock</u>		<u>Preferred</u> <u>Stock</u>	<u>Additional</u>	<u>Accumulated</u> <u>Deficit</u>	
	<u>Shares</u>	<u>Amount</u>		<u>Paid-In</u>		
				<u>Capital</u>		
BALANCE, April 1, 2006	31,017,615	310,176	\$ 24,000	\$ 28,031,915	\$ (23,234,612)	\$
Exercise of stock options	12,500	125	--	13,750	--	
Compensation expense associated with options	--	--	--	235,970	--	
Dividends paid and accrued on preferred shares	--	--	--	--	(1,166)	
Net loss	--	--	--	--	(1,770,052)	
BALANCE, December 31, 2006	31,030,115	310,301	\$ 24,000	\$ 28,281,635	\$ (25,005,830)	\$

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

UNITED ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED DECEMBER 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,770,052)	\$ (2,898,419)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	69,821	620,508
Warrants granted in consideration for services	--	129,720
Stock granted in consideration for interest expense	--	492
Compensation expense associated with options	235,970	387,000
Changes in operating assets and liabilities		
Decrease in accounts receivable, net	3,496	663,758
(Increase) decrease in inventory, net	(8,066)	201
Decrease in note receivable, net	15,000	11,150
(Increase) decrease in prepaid expenses and other current assets	(3,816)	70,289
Decrease in accounts payable and accrued expenses	(90,384)	(14,807)
Increase in employee loans	(2,340)	(22)
Net cash used in operating activities	(1,550,371)	(1,030,130)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for acquisition of property and equipment	(3,710)	(30,709)
Payments for patents	(40,231)	(25,846)
Cash used in investing activities	(43,941)	(56,555)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from related party	--	200,000
Payments of related party payable	(200,000)	(133,600)
Proceeds from the exercise of stock options	13,875	345,000
Proceeds from the issuance of common stock	--	380,000
Proceeds from stock subscription receivable	--	13,333
Preferred stock dividend	(1,166)	--
Net cash (used in) provided by financing activities	(187,291)	804,733
Net decrease in cash and cash equivalents	(1,781,603)	(281,952)
CASH AND CASH EQUIVALENTS, beginning of period	5,194,748	365,610
CASH AND CASH EQUIVALENTS, end of period	\$ 3,413,145	\$ 83,658

UNITED ENERGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
	(Unaudited)	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period		
Interest	\$ 1,925	\$ 1,756
Income taxes	\$ 1,235	\$ 1,434
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Conversion of note payable into common stock	\$ --	\$ 1,600,000

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

UNITED ENERGY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 (Unaudited)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying unaudited consolidated financial statements of United Energy Corp. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB of Regulation S-B. 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, 2006 (unaudited) and the results of its operations for the three months and nine months ended December 31, 2006 and 2005 (unaudited) and cash flows for the nine months ended December 31, 2006 and 2005 (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, 2006 are not necessarily indicative of the operating results that may be expected for the year ending March 31, 2007.

The consolidated balance sheet as of March 31, 2006 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-KSB for the fiscal year ended March 31, 2006.

The Company currently anticipates that its available cash on hand and cash resources from expected revenues will be sufficient to meet its anticipated working capital and capital expenditure requirements for at least the next twelve months.

Our continued existence is dependent upon several factors, including increased sales volumes and the ability to achieve profitability from the sale of our product lines. In order to increase our cash flow, we are continuing our efforts to stimulate sales and cut back expenses not directly supporting our sales and marketing efforts.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted the fair value recognition provision of Statement of Financial Standards ("SFAS") No. 123 (revised 2004) *Share-based Payments*, ("SFAS 123(R)") using the modified prospective transition method and therefore has not restated results for prior periods. Under this transition method, stock based compensation expense for the second quarter of fiscal year 2007 includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provision of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"). Stock-based compensation expense for all stock-based compensation awards granted after January 1, 2006 is based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R).

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

At December 31, 2006, the Company has stock based compensation plans. As permitted by SFAS No.123, Accounting for Stock Based Compensation, the Company accounted 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 through December 31, 2005. On January 1, 2006, the Company adopted SFAS No. 123(R), which requires public entities to record noncash compensation expense related to payment for employee services by an equity award, such as stock options. 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. As a result of adopting SFAS 123(R), net loss for the nine months ended December 31, 2006 was higher by \$136,730 than if the Company had not adopted SFAS 123(R). There was minimal impact on both the basic and diluted loss per share for the nine months ended December 31, 2006. The Company accounted 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" until the adoption of SFAS 123(R) which does not cover non-employees. 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 \$90,615 and \$129,720 for the nine months ended December 31, 2006 and 2005, respectively.

2. USE OF ESTIMATES

The preparation of consolidated financial statements in accordance with accounting principals generally accepted in the United States of America requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

On an on-going basis, the Company evaluates its estimates, including those related to option and warrant values, bad debts, inventories, intangible assets, contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

3. 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, 2006 and 2005.

The Company's total revenues and net income (loss) by segment for the three month period ended December 31, 2006 and identifiable assets as of December 31, 2006 are as follows:

	<u>Graphic Arts</u>	<u>Specialty Chemicals</u>	<u>Corporate</u>	<u>Total</u>
Revenues	\$ 616	\$ 112,843	\$ --	\$ 113,459
Gross profit	\$ 35	\$ 45,561	\$ --	\$ 45,596
Selling, general and administrative	--	303,389	413,590	716,979
Depreciation and amortization	--	17,824	1,649	19,473
Interest income	--	--	41,157	41,157
Interest expense	--	--	696	696
Net income (loss)	\$ 35	\$ (275,652)	\$ (374,778)	\$ (650,395)
Cash and cash equivalents	\$ --	\$ --	\$ 3,413,145	\$ 3,413,145
Accounts receivable, net	118	87,943	--	88,061
Inventory, net	7,545	107,478	--	115,023
Note receivable, net	4,476	--	--	4,476
Prepaid expenses	--	34,505	53,968	88,473
Property and equipment, net	--	71,336	32,497	103,833
Goodwill, net	--	15,499	--	15,499
Patents, net	--	344,853	--	344,853
Loan receivable, net	--	--	2,704	2,704
Deposits	--	--	1,385	1,385