

UNITED ENERGY CORP /NV/  
Form 10-Q  
November 14, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the quarterly period ended September 30, 2008**

**or**

**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**

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**UNITED ENERGY CORP.**

(Exact name of registrant 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**  
(Registrant's telephone number, including area code)

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 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  (Do not check if a smaller reporting company)  Smaller reporting company

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 November 14, 2008, 31,030,115 shares of common stock, par value \$.01 per share, were outstanding.

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**Item 1. Financial Statements****UNITED ENERGY CORP. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

|   | <b>September 30,<br/>2008<br/>(Unaudited)</b> | <b>March 31,<br/>2008</b> |
|---|---|---------------------------|
| <b>ASSETS</b>   |   |                           |
| <b>CURRENT ASSETS:</b>  |   |                           |
| Cash and cash equivalents   | \$ 354,011                                    | \$ 858,575                |
| Accounts receivable, net of allowance for doubtful accounts of \$12,481 and \$25,329, respectively                      | 200,761                                       | 247,747                   |
| Inventory   | 137,396                                       | 141,667                   |
| Prepaid expenses and other current assets   | 45,569  | 162,255                   |
| Loan receivable, net of reserve of \$25,000   | 25,000  | 25,000                    |
| <b>Total current assets</b>   | <b>762,737</b>                                | <b>1,435,244</b>          |
| <b>PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization of \$447,832 and \$435,377 respectively</b> | <b>121,168</b>                                | <b>51,356</b>             |
| <b>OTHER ASSETS:</b>  |   |                           |
| Goodwill, net   | 15,499  | 15,499                    |
| Patents, net of accumulated amortization of \$212,622 and \$193,330, respectively                                       | 374,689                                       | 386,687                   |
| Loans receivable  | 4,137   | 5,023                     |
| Deposits  | 1,385   | 1,385                     |
| <b>Total assets</b>   | <b>\$ 1,279,615</b>                           | <b>\$ 1,895,194</b>       |

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

**UNITED ENERGY CORP. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

**September 30,**  
**2008**  
**(Unaudited)**

**March 31,**  
**2008**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**CURRENT LIABILITIES:**

|                           |    |         |    |         |
|---------------------------|----|---------|----|---------|
| Accounts payable          | \$ | 234,263 | \$ | 167,913 |
| Accrued expenses          |    | 37,376  |    | 113,698 |
| Due to related parties    |    | 244,141 |    | 244,141 |
| Total current liabilities |    | 515,780 |    | 525,752 |

**STOCKHOLDERS' EQUITY:**

|   |    |              |    |              |
|---|----|--------------|----|--------------|
| Preferred Stock: 100,000 shares authorized; Series A Convertible Preferred Stock: \$8,000 stated value, 3 shares issued and outstanding as of September 30, 2008 and March 31, 2008 |    | 24,000       |    | 24,000       |
| Common stock: \$0.01 par value 100,000,000 shares authorized; 31,030,115 shares issued and outstanding as of September 30, 2008 and March 31, 2008                                  |    | 310,301      |    | 310,301      |
| Additional paid-in capital  |    | 21,787,775   |    | 21,775,204   |
| Accumulated deficit   |    | (21,358,241) |    | (20,740,063) |
| Total stockholders' equity  |    | 763,835      |    | 1,369,442    |
| Total liabilities and stockholders' equity  | \$ | 1,279,615    | \$ | 1,895,194    |

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<br>Ended September 30, |                     | For the Six Months<br>Ended September 30, |                     |
|--|---|---------------------|---|---------------------|
|  | 2008<br>(Unaudited)                         | 2007<br>(Unaudited) | 2008<br>(Unaudited)                       | 2007<br>(Unaudited) |
| REVENUES, net  | \$ 384,356                                  | \$ 113,777          | \$ 597,994                                | \$ 390,017          |
| COST OF GOODS SOLD   | 166,100                                     | 71,608              | 274,634                                   | 189,098             |
| Gross profit   | 218,256                                     | 42,169              | 323,360                                   | 200,919             |
| <b>OPERATING EXPENSES:</b>   |   |                     |   |                     |
| Selling, general and administrative                                      | 499,256                                     | 622,992             | 915,965                                   | 1,279,027           |
| Depreciation and amortization  | 12,631                                      | 18,922              | 24,902                                    | 37,522              |
| Total operating expenses   | 511,887                                     | 641,914             | 940,867                                   | 1,316,549           |
| Loss from operations   | (293,631)                                   | (599,745)           | (617,507)                                 | (1,115,630)         |
| <b>OTHER INCOME (EXPENSE), net:</b>                                      |   |                     |   |                     |
| Interest income  | 121   | 22,765              | 923                                       | 51,641              |
| Interest expense   | (273)                                       | (437)               | (874)                                     | (1,321)             |
| Total other income (expense), net  | (152)                                       | 22,328              | 49  | 50,320              |
| Net loss   | (293,783)                                   | (577,417)           | (617,458)                                 | (1,065,310)         |
| Preferred dividends  | (360)                                       | (360)               | (720)                                     | (720)               |
| Net loss applicable to common shareholders                               | \$ (294,143)                                | \$ (577,777)        | \$ (618,178)                              | \$ (1,066,030)      |
| <b>BASIC AND DILUTED LOSS PER SHARE:</b>                                 |   |                     |   |                     |
| Total basic and diluted loss per share                                   | \$ (0.01)                                   | \$ (0.02)           | \$ (0.02)                                 | \$ (0.03)           |
| <b>WEIGHTED AVERAGE NUMBER OF SHARES, OUTSTANDING, basic and diluted</b> |   |                     |   |                     |
|  | 31,030,115                                  | 31,030,115          | 31,030,115                                | 31,030,115          |

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

**UNITED ENERGY CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2008 (UNAUDITED)**

|   | Common Stock<br>Shares | Common Stock<br>Amount | Preferred<br>Stock | Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Total        |
|---|------------------------|------------------------|--------------------|----------------------------------|------------------------|--------------|
| BALANCE, April 1,<br>2008                       | 31,030,115             | \$ 310,301             | \$ 24,000          | \$ 21,775,204                    | \$ (20,740,063)        | \$ 1,369,442 |
| Compensation expense<br>associated with options | —                      | —                      | -                  | 12,571                           | —                      | 12,571       |
| Dividends accrued on<br>preferred shares        | —                      | —                      | —                  | —                                | (720)                  | (720)        |
| Net loss  | —                      | —                      | —                  | —                                | (617,458)              | (617,458)    |
| BALANCE, September<br>30, 2008                  | 31,030,115             | \$ 310,301             | \$ 24,000          | \$ 21,787,775                    | \$ (21,358,241)        | \$ 763,835   |

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

**UNITED ENERGY CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2008 AND 2007**

|  | 2008         | 2007           |
|--|--------------|----------------|
|  | (Unaudited)  |                |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                               |              |                |
| Net loss from continuing operations  | \$ (617,458) | \$ (1,065,310) |
| Adjustments to reconcile net loss to net cash used in operating activities |              |                |
| Depreciation and amortization  | 31,747       | 45,697         |
| Compensation expense associated with options                               | 12,571       | 116,216        |
| Asset transferred in legal settlement                                      | -            | 5,003          |
| Changes in operating assets and liabilities                                |              |                |
| Decrease (increase) in accounts receivable, net                            | 46,986       | (22,770)       |
| Decrease (increase) in inventory, net                                      | 4,272        | (59,412)       |
| Decrease in prepaid expenses and other current assets                      | 116,686      | 14,810         |
| (Decrease) increase in accounts payable and accrued expenses               | (9,972)      | 16,278         |
| Net cash used in continuing operations                                     | (415,168)    | (949,488)      |
| <b>CASH FLOWS FROM DISCONTINUED OPERATIONS:</b>                            |              |                |
| Decrease in accounts receivable, net                                       | -            | 31             |
| Decrease in note receivable, net   | -            | 4,476          |
| Net cash provided by discontinuing operations                              | -            | 4,507          |
| Net cash used in operating activities                                      | (415,168)    | (944,981)      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                               |              |                |
| Employee loans   | 885          | (4,377)        |
| Payments for acquisition of property and equipment                         | (82,267)     | (4,896)        |
| Payments for patents   | (7,294)      | (38,926)       |
| Cash used in investing activities  | (88,676)     | (48,199)       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                               |              |                |
| Preferred stock dividend   | (720)        | (720)          |
| Net cash used in financing activities                                      | (720)        | (720)          |
| Net decrease in cash and cash equivalents                                  | (504,564)    | (993,900)      |
| CASH AND CASH EQUIVALENTS, beginning of period                             | 858,575      | 2,863,906      |
| CASH AND CASH EQUIVALENTS, end of period                                   | \$ 354,011   | \$ 1,870,006   |

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



**UNITED ENERGY CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2008 AND 2007**

|   | <b>2008</b> |                    | <b>2007</b> |
|---|-------------|--------------------|-------------|
|   |             | <b>(Unaudited)</b> |             |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b> |             |                    |             |
| Cash paid during the period                               |             |                    |             |
| Interest  | \$          | 874                | \$ 1,321    |
| Income taxes  | \$          | 1,560              | \$ 2,150    |

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

**UNITED ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008 (Unaudited)**

**1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of presentation*

The accompanying unaudited consolidated financial statements of United Energy Corp. (“we”, “United Energy” or the “Company”) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. 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 September 30, 2008 (unaudited) and the results of its operations for the three months and six months ended September 30, 2008 and 2007 (unaudited) and cash flows for the three months and six months ended September 30, 2008 and 2007 (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 six months ended September 30, 2008 are not necessarily indicative of the operating results that may be expected for the year ending March 31, 2009.

The consolidated balance sheet as of March 31, 2008 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, 2008.

*Going Concern* – During the past two fiscal years ended March 31, 2008 and 2007, we have recorded aggregate losses from continuing operations of \$4,313,181 and have incurred total negative cash flows from operations of \$4,027,022 for the same two-year period. During the six months ended September 30, 2008 the Company experienced a net loss from operations of \$601,722 and a negative cash flow from operations of \$415,168. These matters raise substantial doubt about the Company's ability to continue as a going concern. Our consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

Our continued existence is dependent upon several factors, including raising additional capital through equity or debt financing, increased sales volumes, collection of existing receivables 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.

There can be no assurance that we will be successful in stimulating sales or reducing expenses to levels sufficient to generate cash flow sufficient to fund our anticipated liquidity requirements. There also can be no assurance that available financing will be available, or if available, that such financing will be on terms acceptable to us.

**2. RECENTLY ISSUED ACCOUNTING STANDARDS**

In June 2008, the Financial Accounting Standards Board (“FASB”) issued FSP Emerging Issues Task Force (“EITF”) Issue No. 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.” The FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. The FSP affects entities that accrue dividends on share-based payment awards

during the awards' service period when the dividends do not need to be returned if the employees forfeit the award. This FSP is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of FSP EITF 03-6-1 on its consolidated financial position and results of operations.

**UNITED ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In June 2008, the FASB ratified EITF Issue No. 07-5, "Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity's Own Stock" (EITF 07-5). EITF 07-5 provides that an entity should use a two step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. It also clarifies on the impact of foreign currency denominated strike prices and market-based employee stock option valuation instruments on the evaluation. EITF 07-5 is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of EITF 07-5 on its consolidated financial position and results of operations.

In May 2008, the FASB issued FSP Accounting Principles Board ("APB") Opinion No. 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." The FSP clarifies the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. The FSP requires issuers to account separately for the liability and equity components of certain convertible debt instruments in a manner that reflects the issuer's nonconvertible debt (unsecured debt) borrowing rate when interest cost is recognized. The FSP requires bifurcation of a component of the debt, classification of that component in equity and the accretion of the resulting discount on the debt to be recognized as part of interest expense in our consolidated statement of operations. The FSP requires retrospective application to the terms of instruments as they existed for all periods presented. The FSP is effective for us as of January 1, 2009 and early adoption is not permitted. The Company is currently evaluating the potential impact of FSP APB 14-1 upon its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" (FAS No.162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles". The implementation of this standard will not have a material impact on the Company's consolidated financial position and results of operations.

In April 2008, FASB issued FASB Staff Position on Financial Accounting Standard ("FSP FAS") No. 142-3, "Determination of the Useful Life of Intangible Assets", which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of intangible assets under SFAS No. 142 "Goodwill and Other Intangible Assets". The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of the expected cash flows used to measure the fair value of the asset under SFAS No. 141 (revised 2007) "Business Combinations" and other U.S. generally accepted accounting principles. The Company is currently evaluating the potential impact of FSP FAS No. 142-3 on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosure about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133", (SFAS 161). This statement requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. The Company is required to adopt SFAS No. 161 on January 1, 2009. The Company is currently evaluating the potential impact of SFAS No. 161 on the Company's consolidated financial statements.

In February 2008, the FASB issued FSP FAS No. 157-2, "Effective Date of FASB Statement No. 157". This FSP delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The impact of adoption was not material to the Company's consolidated financial condition or results of operations.



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

**3. 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.

**4. PROPERTY AND EQUIPMENT**

Property and equipment are stated at cost. Depreciation has been calculated over the estimated useful lives of the assets ranging from 3 to 15 years. Leasehold improvements are amortized over the lives of the respective leases, which are shorter than the useful life. The cost of maintenance and repairs is expensed as incurred. Depreciation and amortization expense for the period ended September 31, 2008 and the year ended March 31, 2008 were \$12,455 and \$38,108, respectively.

Property and equipment consists of the following::

|   | <b>September 30,<br/>2008</b> | <b>March 31,<br/>2008</b> |
|---|-------------------------------|---------------------------|
| Furniture and fixtures                          | \$ 82,169                     | \$ 81,642                 |
| Machinery and equipment                         | 418,627                       | 336,887                   |
| Vehicles  | 42,001                        | 42,001                    |
| Leasehold improvements                          | 26,203                        | 26,203                    |
|   | 569,000                       | 486,733                   |
| Less: Accumulated depreciation and amortization | (447,832)                     | (435,377)                 |
| Property and equipment, net                     | \$ 121,168                    | \$ 51,356                 |

**5. INVENTORY**

Inventory consists of the following:

|                   | <b>September 30,<br/>2008</b> | <b>March 31,<br/>2008</b> |
|-------------------|-------------------------------|---------------------------|
| Blended chemicals | \$ 74,871                     | \$ 85,615                 |
| Raw materials     | 62,525                        | 56,052                    |
| Total inventory   | \$ 137,396                    | \$ 141,667                |

**6. RELATED-PARTY TRANSACTIONS**

The Company has an amount due to Robert Seaman, a shareholder and former director of the Company. Amount due to the related party as of September 30, 2008 and 2007 is \$244,141. This amount is unsecured, non-interest bearing

and due upon demand.

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

Martin Rappaport, a major shareholder and director of the Company, owned the property through September 2007 from which United Energy leases the 9,600 square foot facility it occupies in Secaucus, New Jersey. The Company pays approximately \$126,000 per year under the lease, excluding real estate taxes. The Company believes that the lease is at fair market value with leases for similar facilities.

During April 2007, the Company entered into an employment agreement with the Chairman of the Board, Ron Wilen.

## 7. EMPLOYEE BENEFITS PLAN

### *Stock Option Plans*

In August 2001, the Company's stockholders approved the 2001 Equity Incentive Plan (the "2001 Plan"), which provides for the grant of stock options to purchase up to 2,000,000 shares of common stock to any employee, non-employee director, or consultant at the Board's discretion. Under the 2001 Plan, these options may be exercised for a period up to ten years from the date of grant. Options issued to employees are exercisable upon vesting, which can range between the dates of the grant to up to 5 years.

An amendment and restatement of the 2001 Equity Incentive Plan increasing the number of shares for a total of 4,000,000 was approved by the Board of Directors on May 29, 2002 and was approved by the shareholders at the annual meeting.

Under the 2001 Plan, options are granted to non-employee directors upon election at the annual meeting of stockholders at a purchase price equal to the fair market value on the date of grant. In addition, the non-employee director stock options shall be exercisable in full twelve months after the date of grant unless determined otherwise by the compensation committee.

### *Fair Value of Stock Options*

For disclosure purposes under SFAS No. 123 and SFAS No. 123(R), the fair value of each option grant is estimated on the date of grant using the Black-Scholes option valuation model with the following weighted-average assumptions:

|                          | 2008  | 2007  |
|--------------------------|-------|-------|
| Expected life (in years) | 10    | 10    |
| Risk-free interest rate  | 4.54% | 4.54% |
| Volatility               | 109.0 | 84.4  |
| Dividend yield           | 0%    | 0%    |

Utilizing these assumptions, the weighted average fair value of options granted with an exercise price equal to their fair market value at the date of the grant is \$1.15 for the six months ended September 30, 2008.



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

*Summary Stock Option Activity*

The following table summarizes stock option information with respect to all stock options for the quarter ended September 30, 2008:

|  | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (Years) | Aggregate<br>Intrinsic<br>Value |
|--|---------------------|--|---|---------------------------------|
| Options outstanding April 1, 2008          | 3,787,500           | \$ 1.15                                  | 6.36  |                                 |
| Granted                                    | —                   |  |   |                                 |
| Exercised                                  | —                   |  |   |                                 |
| Options outstanding September 30, 2008     | 3,787,500           | \$ 1.15                                  | 6.11  |                                 |
| Vested and expected to vest—end of quarter | 3,787,500           | \$ 1.15                                  | 6.11  | \$ —                            |
| Exercisable—end of quarter                 | 3,607,432           | \$ 1.16                                  | 5.71  | \$ —                            |

Pursuant to the terms of an employment agreement with Ronald Wilen, Chief Executive Officer, President, Secretary and Director of the Company dated April 17, 2007, for each of the next five (5) years of the term of the agreement (commencing with April 17, 2008), Mr. Wilen will receive an option to purchase fifty thousand (50,000) shares of common stock of the Company. The exercise price with respect to any option granted pursuant to the employment agreement shall be the fair market value of the common stock underlying such option on the date such option was granted. The initial grant of 50,000 stock options was granted out of the 2001 Equity Incentive Plan on April 17, 2008. In addition, the stock option to purchase 135,000 shares has been reserved for Mr. Wilen out of the 2001 Equity Incentive Plan. After the reservation described in the immediately preceding sentence, no shares remain available for grant out of the 2001 Equity Incentive Plan. Thus, the remaining stock options to purchase 65,000 shares granted to Mr. Wilen will be non-qualified stock options, unless the Company amends the 2001 Equity Incentive Plan in order to increase the number of shares that may be granted pursuant to such plan or adopts a new stock option plan.

Options outstanding at September 30, 2008 have an exercise price ranging between \$0.70 to \$2.05.

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between United Energy's closing stock price on September 30, 2008 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had vested option holders exercised their options on September 30, 2008. This amount changes based upon changes in the fair market value of United Energy's stock. As of September 30, 2008, \$66,850 of the total unrecognized compensation costs related to stock options is expected to be recognized over a period of three years and six months.

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

**8. COMMITMENTS AND CONTINGENCIES**

**Litigation**

Sales Commission Claim

In July 2002, an action was commenced against us 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 a sales representative of ours and in that capacity made sales of our products to the United States government and to commercial entities. Plaintiffs further allege that we failed to pay to plaintiffs agreed commissions at the rate of 20% of gross sales of our products made by plaintiffs. The complaint seeks an accounting, compensatory damages in the amount of all unpaid commissions plus interest thereon, and punitive damages in an amount triple 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. We believe, based on the advice of counsel, we have meritorious defenses to the claims asserted in the action and intend to vigorously defend the case. The outcome of this matter cannot be determined at this time.

In March 2007, the Company commenced an action against Applied Force and Samuel Miller III in the Superior Court of New Jersey, Law Division - Bergen County for the recovery of two of the Company's vehicles and certain additional claims. The defendants, Applied Force and Samuel Miller III, have filed a counterclaim for recovery of alleged storage fees in the amount of \$126,784 and certain alleged service fees in the amount of \$1,275. A settlement agreement and mutual release was entered into during August 2007 and the action was dismissed on September 18, 2007. As part of the settlement the Company transferred title of a truck to the defendant.

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

**CAUTIONARY STATEMENT RELATING TO FORWARD-LOOKING STATEMENTS**

The matters discussed in this Form 10-Q contain certain forward-looking statements and involve risks and uncertainties (including changing market conditions, competitive and regulatory matters, etc.) detailed in the disclosure contained in this Form 10-Q and the other filings with the Securities and Exchange Commission made by us from time to time. The discussion of our liquidity, capital resources and results of operations, including forward-looking statements pertaining to such matters, does not take into account the effects of any changes to our operations. Accordingly, actual results could differ materially from those projected in the forward-looking statements as a result of a number of factors, including those identified herein and those discussed under the heading "Risk Factors" in the Company's 10-KSB for the fiscal year ended March 31, 2008. This item should be read in conjunction with the financial statements and other items contained elsewhere in the report. Unless the context otherwise requires, "we", "our", "us", the "Company" and similar phrases refer to United Energy Corp.

**Overview**

We develop and distribute environmentally friendly specialty chemical products with applications in several industries and markets. Our current line of products includes our K-Line of Chemical Products for the oil industry and related products.

Through our wholly owned subsidiary, Green Globe Industries, Inc., we provide the U.S. military with a variety of solvents, paint strippers and cleaners under our trade name "Qualchem." Green Globe is a qualified supplier for the U.S. military and has sales contracts currently in place with no minimum purchase requirements, which are renewable at the option of the U.S. Military.

We have developed a system referred to as our "S2 system," to work with our environmentally friendly paraffin dispersants products. This technology produces high volumes of steam and heat at variable pressures and temperatures to completely dissolve most deposits of paraffin and asphaltene within oil wells, pipelines or storage tanks. The S2 system apparatus is portable, compact and easy to use. We are further developing the process to enhance and support sales of KH-30 and its related products for the oil industry and for other potential applications. Our patent on the S2 system expired in January 2007; however, we have filed a patent application with respect to certain improvements, modifications and enhancements to the S2 system.

A key component of our business strategy is to pursue collaborative joint working and marketing arrangements with established international oil and oil service companies. We intend to enter into these relationships to more rapidly and economically introduce our K-Line of Chemical Products to the worldwide marketplace for refinery, tank and pipeline cleaning services. We entered into an amended and restated non-exclusive distribution agreement with Champion Technologies Inc. for the sale and distribution of our K-Line of Chemical Products. The agreement is for a term of three (3) years and grants Champion Technologies Inc. certain rights to blend, dilute and utilize our products to manufacture and sell different products. We also entered into a non-exclusive Master Purchase Agreement with Petrobras America Inc. for the sale and distribution of our K-Line of Chemical Products. The agreements do not provide for any minimum amounts to be purchased. We are also currently negotiating potential working arrangements with several other companies, however, there can be no assurance that any of these arrangements will be entered into or, if entered into will be successful. There also can be no assurance that the agreements with Champion Technologies and Petrobras America will be successful.

We provide our K-Line of Chemical Products and our Green Globe Products to our customers and generated revenues of \$597,994 for the six month period ended September 30, 2008 and \$390,017 for the six month period ended September 30, 2007.



## RESULTS OF OPERATIONS

### Three Months Ended September 30, 2008 Compared to the Three Months Ended September 30, 2007

*Revenues.* Revenues for the three months ended September 30, 2008 were \$384,356, a \$270,579, or 238% increase from revenues of \$113,777 in the comparable three months of 2007. Revenues from our K-Line of Chemical Products increased by \$319,362 to \$362,873 or 734% compared to \$43,511 in the comparable three months ended September 30, 2007, offset by a decrease of \$48,783 to \$21,483 or 70% compared to \$70,266 in the comparable three months ended September 30, 2007 in our Green Globe/Qualchem military sales.

*Cost of Goods Sold.* Cost of goods sold increased \$94,492, or 132% to \$166,100 or 44% of revenues, for the three months of September 30, 2008 from \$71,608 or 63% of revenues, for the three months of September 30, 2007. The increase in cost of goods sold was due to the higher sales level in the period compared to the comparable period in 2007. The decrease in cost of goods sold as a percentage of revenues was due to the lower sales of our Green Globe/Qualchem military sales. Cost of goods sold from our K-Line of Chemical Products increased by \$113,255 to \$148,153 or 325% compared to \$34,898 in the comparable three months ended September 30, 2007, offset by an decrease of \$18,763 to \$17,947 or 52% compared to \$36,710 in the comparable three months ended September 30, 2007 in cost of goods sold of our Green Globe/Qualchem military sales.

*Gross Profit.* Gross profit for the three months ended September 30, 2008, increased by \$176,087, or 418% to \$218,256 or 56% of sales compared with \$42,169 or 37% of sales in the prior period. The increase in gross profit and gross profit percentage reflects the higher levels of sales.

#### *Operating Costs and Expenses*

*General and Administrative Expenses.* General and administrative expenses decreased \$123,736 to \$499,256 or 130% of sales for the three months ended September 30, 2008 compared with \$622,992 or 548% of sales for the three months ended September 30, 2007. The decrease in general and administrative expenses is primarily related to a decrease in professional fees, salaries due to the reduction of employees and a reduction in option costs charged for employees.

*Depreciation and Amortization.* Depreciation and amortization decreased to \$12,631 for the three months ended September 30, 2008 from \$18,922 for the three months ended September 30, 2007, reflecting the Company's use of an accelerated method of depreciation, offset by an increase in fixed assets.

*Interest Income.* The Company had interest income of \$121 for the three months ended September 30, 2008 compared with \$22,765 in the corresponding period in 2007. The decrease was due to the use of cash received in connection with the private placement in March 2006.

*Interest Expense.* Interest expense remained relatively constant for the three months ended September 30, 2008 as compared to September 30, 2007.

*Net Loss.* The three months ended September 30, 2008 resulted in a net loss of \$293,783 or \$0.01 per share as compared to a net loss of \$577,417 or \$0.02 per share for the three months ended September 30, 2007. The average number of shares of common stock used in calculating earnings per share remained the same at 31,030,115.

## **Six Months Ended September 30, 2008 Compared to the Six Months Ended September 30, 2007**

*Revenues.* Revenues for the six-month period ended September 30, 2008 were \$597,994, a \$207,977 or 53% increase from revenues of \$390,017 in the comparable six-month period ended September 30, 2007. Revenues from our K-Line of Chemical Products increased by \$385,006 to \$568,847 or 209% compared to \$183,841 in the comparable six months ended September 30, 2007, offset by a decrease of \$177,029 to \$29,147 or 86% compared to \$206,176 in the comparable six months ended September 31, 2007 in our Green Globe/Qualchem military sales.

*Cost of Goods Sold.* Cost of goods sold increased \$85,536, or 45% to \$274,634 or 46% of revenues, for the six-month period ended September 30, 2008 from \$189,098 or 48% of revenues, for the six-month period ended September 30, 2007. The increase in cost of goods sold was due to the higher sales level in the period compared to the comparable period in 2007. The decrease in cost of goods sold as a percentage of revenues was due to the lower sales of our Green Globe/Qualchem military sales. Cost of goods sold from our K-Line of Chemical Products increased by \$164,667 to \$254,468 or 183% compared to \$89,802 in the comparable six months ended September 30, 2007, offset by an decrease of \$79,130 to \$20,166 or 80% compared to \$99,296 in the comparable six months ended September 30, 2007 in cost of goods sold of our Green Globe/Qualchem military sales.

*Gross Profit.* Gross profit for the six months ended September 30, 2008, increased by \$122,441, or 61% to \$323,360 or 54% of revenues compared with \$200,919 or 52% of revenues in the prior period. The increase in gross profit and gross profit percentage reflects the higher levels of sales of Specialty Chemicals.

### ***Operating Costs and Expenses***

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses decreased \$363,062 to \$915,965 or 154% of revenues for the six months ended September 30, 2008 compared with \$1,279,027 or 328% of revenues for the six months ended September 30, 2007. The decrease in selling, general and administrative expenses was primarily related to a decrease in professional fees, salaries due to the reduction of employees and a reduction in option costs charged for employees, partially offset by a slight increase in rent and travel expense.

*Depreciation and Amortization.* Depreciation and amortization decreased to \$24,902 for the six months ended September 30, 2008 from \$37,522 for the six months ended September 30, 2007 reflecting the Company's use of an accelerated method of depreciation, offset by an increase in fixed assets.

*Interest Income.* The Company had interest income of \$923 for the six months ended September 30, 2008 compared with \$51,641 in the corresponding period in 2007. The decrease was due to the use of cash received in connection with the private placement in March 2006.

*Interest Expense.* Interest expense remained relatively constant for the six months ended September 30, 2008 as compared to September 30, 2007.

*Net Loss.* The six months ended September 30, 2008 resulted in a net loss of \$617,458 or \$0.02 per share as compared to a net loss of \$1,066,030 or \$0.03 per share for the six months ended September 30, 2007. The average number of shares of common stock used in calculating earnings per share remained the same at 31,030,115.

### ***Liquidity and Capital Resources***

As of September 30, 2008, the Company had \$354,011 in cash and cash equivalents, as compared to \$858,575 at March 31, 2008.

The \$504,564 decrease in cash and cash equivalents was due to net cash used in operations of \$415,168, net cash used in investing activities of \$88,676 and net cash used in financing activities of \$720. Cash used in investing activities consisted of fixed asset purchases of \$82,267 and patent purchases of \$7,294, offset by employee loans of \$885. Cash used in financing activities consisted of preferred stock dividends of \$720.

As of September 30, 2008 the Company's backlog included \$74,206 of chemical sales. 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, 2008 and 2007, we have recorded aggregate losses from continuing operations of \$4,313,181 and have incurred total negative cash flows from operations of \$4,027,022 for the same two-year period. During the six months ended September 30, 2008 the Company experienced a net loss from operations of \$617,458 and a negative cash flow from operations \$415,168. These matters raise substantial doubt about the Company's ability to continue as a going concern. Our consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

Our continued existence is dependent upon several factors, including raising additional capital through equity or debt financing, increased sales volumes, collection of existing receivables 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.

There can be no assurance that we will be successful in stimulating sales or reducing expenses to levels sufficient to generate cash flow sufficient to fund our anticipated liquidity requirements. There also can be no assurance that available financing will be available, or if available, that such financing will be on terms acceptable to us.

### ***Concentration of Risk***

Sales to three of our customers, accounted for approximately 60% and sales to two of our customers, accounted for approximately 75% of our sales for the six months ending September 30, 2008 and 2007.

### ***Off-Balance Sheet Arrangements***

We do not currently have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our stockholders.

### ***Item 3. Quantitative and Qualitative Disclosures About Market Risks.***

Not applicable

### ***Item 4T. Controls and Procedures.***

#### **Evaluation of the Company's Disclosure Controls and Procedures**

We carried out an evaluation, under the supervision and with the participation of the Company's management, including our Chief Executive Officer and our Principal Accounting Officer (Interim Chief Financial Officer), of the effectiveness of our "disclosure controls and procedures" (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of September 30, 2008. Based upon that evaluation, the Chief Executive Officer and the Principal Accounting Officer (Interim Chief Financial Officer) concluded that our disclosure controls and procedures are effective, in all material respects, with respect to the recording, processing, summarizing, and reporting, within the time periods specified in the Securities and Exchange Commission's rules and forms, of information required to be disclosed by us in the reports that we file or submit under the Exchange Act. In designing and evaluating our "disclosure controls and procedures" (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended), management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.



**Changes in Control Over Financial Reporting**

Management has not identified any change in our internal control over financial reporting that occurred during the second quarter of the fiscal year ended March 31, 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II**  
**OTHER INFORMATION**

**Item 1. *Legal Proceedings***

None.

**Item 1A. *Risk Factors***

Not applicable.

**Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds***

None

**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 Chief Executive Officer's Certificate, pursuant to Rule 13a-14(a)/ 15d-14(a) of the Exchange Act.
- 31.2 Chief Financial Officer's Certificate, pursuant to Rule 13a-14(a)/ 15d-14(a) of the Exchange Act
- 32.1 Chief Executive Officer's Certificate, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).
- 32.2 Chief Financial Officer's Certificate, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).

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: November 14, 2008

UNITED ENERGY CORP.

By: /s/ Ronald Wilen  
Ronald Wilen,  
Chief Executive Officer  
(as principal executive officer)

By: /s/ James McKeever  
James McKeever,  
Interim Chief Financial Officer  
(as principal financial and accounting officer)